

## Administration and Finance

# Primer on Financial Aspects of Special Education

*Originally prepared by Jeff Wulfson, Associate Commissioner, Department of Elementary and Secondary Education in September 2008 and updated by the Office of District and School Finance in June 2023.*

One out of every five public school students in Massachusetts has some type of disability that affects the student's ability to make effective educational progress and requires special education services.<sup>1</sup> School districts are required to provide special education services by both state law ([M.G.L. chapter 71B](#), first enacted as chapter 766 of the acts of 1972) and federal law (the Act, IDEA, originally enacted in 1974). The Department of Elementary and Secondary Education (DESE) is responsible for providing financial and technical assistance to districts and ensuring compliance with special education requirements.

Special education services can be provided in a wide range of settings, with best practices continually evolving. Students may receive services in a general education classroom, some may have an aide assigned to assist, some may receive services in a pull-out program for a portion of the school day, and some may be in a substantially separate program for all or most of the day. Many districts have joined together to form educational collaboratives to provide substantially separate special education programs on a regional basis, providing for the student and for effective cost control through economies of scale. Students with significant disabilities may require placement in a private special education (often referred to as a "766" school), either in a day program or a residential program.

Parents, school officials, and in many cases outside experts work collaboratively to determine the services needed by each student, and these are documented in an individual education program (IEP) for the student. The Bureau of Special Education Appeals (BSEA) provides assistance when parents and school officials cannot reach agreement. BSEA can provide either informal, non-binding mediation or formal hearings with a binding decision issued by a hearing officer.

## State and Federal Funding Sources for Special Education

The cost of special education services is substantial and growing.<sup>2</sup> The Commonwealth of Massachusetts and federal governments provide financial support for these services through four main funding streams: chapter 70, circuit breaker, IDEA, and MuniMed.

The foundation budget used in the chapter 70 state aid program includes allotments for both in-district and out-of-district special education costs. The Student Opportunity Act ([Chapter 132 of the Acts of 2019](#)) made alternations to these allotments, phasing in higher percentages over a six-year period (FY22 to FY27). Once fully implemented, the foundation budget calculation for each district will assume tuitioned-out special education enrollment as 1% and in-districts special education enrollment as 4% of total enrollment (not including vocational or preschool enrollment) plus 5% of vocational school enrollment. The state's share of the foundation budget varies from community to community, based on each municipality's fiscal capacity.

Districts also receive a federal IDEA entitlement grant, which can be used to pay for special education services. The amount that each district receives is based on a formula that includes a base amount (tied to the district's FY99 IDEA allocation) plus additional amounts reflecting the total number of students and the number of low-income students in the district.

The municipal Medicaid (MuniMed) program provides reimbursement for certain medical services provided by school districts to eligible students, many of whom are also receiving special education services. MuniMed reimbursements reaches nearly \$100 million annually. These are treated as general fund revenues by either the municipality (in the case of municipal school districts) or the regional school district. Although not required to do so, many municipalities appropriate all or part of their MuniMed reimbursements back to their local school district to help defray future special education costs.

## Circuit Breaker Program

The state special education reimbursement program, commonly known as the circuit breaker program, was started in FY04 to provide additional state funding to districts for providing students with high-cost special education services. In FY23, approximately \$430 million was paid to districts under this program.

The program provides reimbursements to district through two annual claim cycles, with year-end claims filed in July and extraordinary relief claims filed in March. Each is described in further detail in the next sections.

### Circuit Breaker Claims

Special education expenses eligible for reimbursement under this program are reported by school districts to the Department each July, covering services provided during the previous fiscal year. Services must be included on a student's IEP to be claimed. Administrative and overhead costs are not reimbursable.

Standard rates for each type of in-district service were first established by the Department in FY03 based on a statewide survey and increased annually at the same rate that the state's Operational Services Division (OSD) uses to increase private school rates each year. These rates are used to calculate the reimbursable cost for services provided to students in-district.

For students attending private school programs approved by the Department, the eligible cost for reimbursement is based on the approved tuition rate set by OSD. In addition to reimbursement for instruction and tuition, the 2019 Student Opportunity Act extended reimbursement to costs associated with transportation of students to out-of-district placements.

The Department provides each district an individual claim form, through which the district records service and cost information, state-assigned student identification numbers (SASIDs), and such other personal identifying information as is needed. Claim information is exchanged through the Department's secure portal.

Reimbursement is calculated on a per-student basis when the total cost of services exceeds the circuit breaker eligibility threshold. As a result of the Student Opportunity Act, beginning in FY21 the threshold for reimbursement was changed from four-times the average statewide foundation to a fixed amount that increases annually based on the Foundation Inflation Index<sup>iii</sup> and is capped at 4.5%. The effect of this change is a lower threshold and increased reimbursements for all claimants. Subject to annual legislative appropriation, the state pays 75% of the costs above the threshold through reimbursement to districts.

As an example, in FY23, the per-student threshold was \$49,494. If special education services provided to a student cost a district \$75,000, reimbursement for that student would be the cost of \$75,000 minus the threshold of \$49,494 times 0.75, or \$19,129.50.

For children placed in a school district outside their home town by the Department of Transitional Assistance (DTA) or the Department of Children and Families (DCF), and for children who have no parents or guardians in the Commonwealth, the reimbursement is 100% above the threshold, rather than 75%.

Reimbursement for end-of-year claims filed in July are paid to districts quarterly in the fiscal year after expenses were incurred. For example, districts claim in July 2023 for services provided July 1, 2022 through June 30, 2023, and reimbursements are provided quarterly during FY24 (September 2023 through June 2024).

Because the program is subject to appropriation, the first quarter's payments can be calculated using an interim reimbursement rate of less than 75%. After all the claim forms have been received and reviewed, and DESE verifies that there are sufficient appropriations to pay all claims, the reimbursements are recalculated using the full appropriate reimbursement rate. Claims for instruction and tuition are paid first, and then funds are allocated to transportation claims again as a result of the Student Opportunity Act. The result of this change would typically guarantee full reimbursement (75%) for instruction and tuition costs moving forward. The program has been fully funded every year since FY19.

### Circuit Breaker Extraordinary Relief Claims

In addition to year-end circuit breaker claim reimbursements, the Extraordinary Relief program provides additional support to districts experiencing a significant increase in their special education costs. Under this program, districts may file an additional claim form in March for the current year's estimated expenses. If qualified expenses have increased by 25% or more over the prior fiscal year, then the district will be eligible for an additional extraordinary relief payment in May to help fund the increase. Extraordinary Relief looks at instructional and tuition services only and does not consider transportation expenses.

## Additional Considerations

Circuit breaker claims are audited by the Department, and adjustments are made to future payments in the event of disallowed costs. For example, costs will be disallowed if services have not been clearly documented on the student's IEP, if a private school program and rate were not approved by DESE, or if there is no OSD authorization provided when necessary. Only services that are required by the IEP are eligible for reimbursement.

As a best practice, circuit breaker reimbursements should be deposited into a special education reimbursement account. These funds may be expended by the school committee in the year received or in the following fiscal year for any circuit breaker eligible special education-related purposes, without further appropriation. As with all special revenues, the appropriating authority can and should consider the projected reimbursements for the following fiscal year when deliberating on the school district's general fund budget. Regulations allow school districts to carry one year's worth of special education reimbursements forward into the next fiscal year.

## Assignment of Local Fiscal Responsibility

In general, special education costs are the responsibility of the district where the student resides or, if the student is living in a residential program, where his or her parents reside. In cases where the student has no parents or legal guardian in the Commonwealth or where the residency of the parents is in dispute, DESE's Office of Special Education Planning and Policy (SEPP) will make a determination.

If a student is attending a regional vocational school district, a charter school, or a school district through the METCO program, and the student needs services that can be provided within the school setting, the district that the student is attending is required to provide and pay for those services. However, if it is determined that the student needs a placement in a private school program, then the fiscal responsibility reverts to the student's home district.

If a student is attending another district under the inter-district school choice program and is receiving special education services, the costs of those services can be billed back to the sending district. The service rates for the circuit breaker program are used to determine the chargeback amount.

A small number of severely disabled students attend state hospital schools. These students remain the fiscal responsibility of their home district. Charges for these students are assessed on line D2 of the Cherry Sheets.

The "move-in" law (M.G.L. c.71B, s.5) applies to students in private school placements who move from one Massachusetts town to another during the course of the year. The fiscal responsibility for these students remains with their prior district until the end of the fiscal year. In addition, if the move takes place between April 1 and June 30, the fiscal responsibility remains with the prior district for not only the current year but the following fiscal year as well.

## Special Education Transportation

Special education students may require transportation services, which the district must provide if it is included in the student's IEP. Beginning with implementation of the Student Opportunity Act, costs associated with transporting students to out-of-district programs are qualified expenses for reimbursement through the circuit breaker program.

Out-of-district transportation costs were phased into the program between FY21 and FY23, and are now at the statutory maximum of 75% for costs above the annual threshold. Statewide, reimbursement for out-of-district transportation is considered only after reimbursement for tuition and instruction is calculated, and is subject to legislative appropriation.

Additional information on special education finance is available on the [DESE school finance webpage](#) or by contacting the DESE circuit breaker unit at [CircuitBreaker@mass.gov](mailto:CircuitBreaker@mass.gov).

*Note: Since DESE regulations allow communities and school districts to carry forward up to one year's worth of state reimbursement, DLS advises communities build balances in their special education circuit breaker accounts in years when actual costs compare favorably with the budget so that in years when special education costs increase unexpectedly or the circuit breaker reimbursement drops, there will be some circuit breaker revenue to cover any unforeseen costs. Building a circuit breaker balance is a good management practice as it eliminates some of the risk associated with these unpredictable special education costs.*

i See [School and District Profiles](#) on the DESE website

ii See [trend and statistical information](#) on the DESE website

iii The foundation inflation index rate is defined as the ratio of the current year's third-quarter inflation index to the prior year's third-quarter index.

Last Updated: June 27, 2023