

PARENT CHOICE

# ISSUES

IN THE STATE



**Parent Choice for Virginia:**

Many agree with the concept. Some disagree. And some simply want more information. As the public debate continues to grow louder about how best to provide a quality education to all Virginia children, it is critical to know the facts about parent choice, and to have an understanding of how parent choice programs have had an impact on communities, parents and students around the country. All of this analysis is done with one goal in mind: The best possible education for all of Virginia's children.

## The Fiscal Impact of a Tuition Assistance Grant for Virginia's Special Education Students

Prepared By:

**Dr. Susan L. Aud**

Senior Fellow

Milton and Rose D. Friedman Foundation

April 2007

A MESSAGE FROM THE FRIEDMAN FOUNDATION:

## OUR CHALLENGE TO YOU

Our research adheres to the highest standards of scientific rigor. We know that one reason the school choice movement has achieved such great success is because the empirical evidence really does show that school choice works. More and more people are dropping their opposition to school choice as they become familiar with the large body of high-quality scientific studies that supports it. Having racked up a steady record of success through good science, why would we sabotage our credibility with junk science?

This is our answer to those who say we can't produce credible research because we aren't neutral about school choice. Some people think that good science can only be produced by researchers who have no opinions about the things they study. Like robots, these neutral researchers are supposed to carry out their analyses without actually thinking or caring about the subjects they study.

But what's the point of doing science in the first place if we're never allowed to come to any conclusions? Why would we want to stay neutral when some policies are solidly proven to work, and others are proven to fail?

That's why it's foolish to dismiss all the studies showing that school choice works on grounds that they were conducted by researchers who think that school choice works. If we take that approach, we would have to dismiss all the studies showing that smoking causes cancer, because all of them were conducted by researchers who think that smoking causes cancer. We would end up rejecting all science across the board.

The sensible approach is to accept studies that follow sound scientific methods, and reject those that don't. Science produces reliable empirical information, not because scientists are devoid of opinions and motives, but because the rigorous procedural rules of science prevent the researchers' opinions and motives from determining their results. If research adheres to scientific standards, its results can be relied upon no matter who conducted it. If not, then the biases of the researcher do become relevant, because lack of scientific rigor opens the door for those biases to affect the results.

So if you're skeptical about our research on school choice, this is our challenge to you: prove us wrong. Judge our work by scientific standards and see how it measures up. If you can find anything in our work that doesn't follow sound empirical methods, by all means say so. We welcome any and all scientific critique of our work. But if you can't find anything scientifically wrong with it, don't complain that our findings can't be true just because we're not neutral. That may make a good sound bite, but what lurks behind it is a flat rejection of science.

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MILTON & ROSE D. FRIEDMAN  
FOUNDATION

Educational  
*Choice*

 **VIRGINIA**  
CHAMBER OF COMMERCE  
Business Leadership for Virginia's Future

THE THOMAS JEFFERSON  
INSTITUTE FOR PUBLIC POLICY

*Th Jefferson*

# Executive Summary

Parents of students with disabilities face a number of difficult choices in determining how to get the best education for their children. Too often, the special education system in public schools fails its students. Parents must become both experts and advocates for their children in order to navigate a burdensome maze of regulations to fight for their children's education. And when this process fails to produce results, as it frequently does because it allows parents little to no power, parents' only option is to sue their own children's schools – an option that few can afford to exercise.

A Tuition Assistance Grant (TAG) would provide a workable alternative for special education students enrolled in public schools that are not meeting their needs, by allowing parents to use a portion of the public funding associated with their child's education at a licensed private school of their choice. This would allow parents to place their child in the best setting for that child's unique educational needs, whether that setting happens to be in a public school or private school.

This study analyzes the fiscal impact of implementing such a policy in Virginia. It uses the most recent available data on Virginia school division revenue to calculate the amount of revenue that does not vary with enrollment, which is left behind in school divisions after students leave, creating a financial windfall. It also uses the most recent available data on Virginia special education spending to calculate the difference between the funds generated for school divisions by each student and the amount that school divisions spend on special education services per student.

Key findings include:

- Because of the unusual way special education is funded in Virginia, a TAG Grant would provide local school systems with an even bigger fiscal benefit than in other states. Special education students generate only slightly more state revenue than regular students, but cost much more to educate. Therefore, when a special education student used a TAG Grant, that student's school division would experience a much greater reduction in costs than in revenues, resulting in a substantial fiscal gain.
- If the state offered a TAG Grant of \$5,000 to parents of special education students, the net cost to the state would be only \$292, and the TAG Grants would create a substantial fiscal gain for nearly every school division in every category of disability. For each student who used a TAG Grant, the average school division would gain a net fiscal benefit of \$5,214 from revenue sources that do not vary with enrollment (leaving these funds in school divisions even after students depart), and an additional net fiscal benefit of \$6,729 because their reduction in special education costs would greatly exceed their reduction in per-student funding.
- Parents of students with disabilities in Virginia currently have very few viable options if the special education system fails to provide quality services for their children. Usually parents' only recourse is to sue their children's schools, which few have the money to do and even fewer are willing to do, given that these same schools take care of their children all day. Parental choice enables parents to quickly secure a better education for their children without the need for costly lawsuits.
- Spending on special education students varies considerably across Virginia school divisions, even in those with only a single identified child for a given category of disability.

## About the Author



Dr. Susan Aud is a Senior Fellow with the Milton and Rose D. Friedman Foundation. She also teaches Quantitative Methods in Political Science Research at the Paul H. Nitze School for Advanced International Studies at Johns Hopkins University, and Statistical Methods in Policy Analysis at George Mason University. While her research initially targeted the economic impact of changes to the market structure of public education, in recent years Dr. Aud has focused her research on the specifics of public education finance formulas at both the state and federal level.

## About the Milton and Rose D. Friedman Foundation



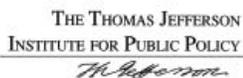
The Milton and Rose D. Friedman Foundation, dubbed “the nation’s leading voucher advocates” by the Wall Street Journal, is a non-profit organization established in 1996. The origins of the foundation lie in the Friedmans’ long-standing concern about the serious deficiencies in America’s elementary and secondary public schools. The best way to improve the quality of education, they believe, is to enable all parents with the freedom to choose the schools that their children attend. The Friedman Foundation builds upon this vision, clarifies its meaning to the public and amplifies the national call for true education reform through school choice.

## About the Virginia Chamber of Commerce



The Virginia Chamber of Commerce is a statewide business advocacy organization providing business leadership for Virginia’s future. The Virginia Chamber’s mission is to serve as the voice of business in Virginia, advocating business positions in both public and private forums; to provide education to the business community on issues and trends affecting profitability and operational conditions; to provide leadership to Virginia that bears a business perspective; to devise programs and strategies that contribute to Virginia’s economic development; and to foster a strong and stable membership base that provides the wherewithal to carry out these objectives.

## About the Thomas Jefferson Institute for Public Policy



The Thomas Jefferson Institute for Public Policy is a non-partisan research and education organization devoted to improving the lives of the people in Virginia. The Institute was organized in 1996, and was the only state and local government focused public policy foundation in Virginia based on a philosophy of limited government, free enterprise and individual responsibility. It is a “solutions tank” seeking better ways to accomplish the policies and programs currently being undertaken by state and local government — always based on the Institute’s underlying philosophy.

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## Introduction

Too often, the special education system in public schools fails to deliver an appropriate education for students with disabilities. In theory, any student identified as needing special education is guaranteed to receive a “free and appropriate public education” under federal law.<sup>1</sup> However, decisions about what services each student will receive are mostly in the hands of schools, which have an incentive to minimize services provided. Parents have some rights to participate in the decision-making process, but in practice they have little power to change the ultimate result. If a public school does not provide appropriate services for a student, that student’s parents may sue the school and request that a judge provide their child with a private school placement.<sup>2</sup> This places a substantial burden on parents – they must have enough money to hire a lawyer, and perhaps even worse, they must be willing to bring a lawsuit against the same school that takes care of their child every day.

Currently, a student with disabilities receives special education services only after receiving a written Individualized Education Plan (IEP). The plan is written after an IEP team comes to agreement about the student’s educational needs, the appropriate goals for the student and the path for meeting those goals. The IEP team is usually composed of three or four teachers and administrators, and the student’s parents. The IEP cannot be changed unless the same team gets together to review it and make that decision. If the parents do not agree that the services being offered by the school meet the federal standard of “appropriate” services, and that their child is making adequate progress, they are not required to sign the IEP. However, they have few choices after that. Their child could continue receiving the same inadequate services he or she was already receiving, or the parents can challenge the school in a due process hearing. At the due process hearing, parents face an array of school system experts as well as the system’s lawyers, whose sole job is often to defend schools in special education due process hearings and lawsuits. Parents can try to level the playing field by hiring an attorney, doing their own research and consulting their own educational experts. However, school divisions have much deeper pockets and greater experience at winning due process hearings, so parents are at a tremendous disadvantage. The next step after the due process hearing is a lawsuit – for those few lucky parents with the resources to hire a lawyer and the nerve to bring a lawsuit against their own child’s school

Consequently, several states have passed legislation that would allow parents to circumvent this broken and burdensome process by offering them a scholarship. This allows parents whose children are not being well served in public schools to use a portion of their children’s education funding to choose the school that would better educate their child. These programs allow parents to quickly and easily secure a better education for their special education children, without the need for costly lawsuits.

Florida has been a leader on this front, with the establishment of its John M. McKay Scholarship for Students with Disabilities program. Named for the former state senate president who sponsored the legislation creating the program, and who is the father of a special education child, the McKay program started as a pilot in 1999-2000, operating in a single county; only two students participated. In the 2005-06 school year, the program provided scholarships to 17,300 students at an average cost of \$6,926.<sup>3</sup>

The McKay program has proven to deliver better educational services to special education students. An empirical study determined that more than two thirds of participating families reported that the public schools their children had previously attended did not provide all the services they were required to provide under the federal special education law. By contrast, only 12 percent reported that their private schools did not provide services they promised to provide. Participating students were victimized by their peers far less often; about half of participants were bothered often by other students in their public schools because of their disabilities, and about a quarter had been physically assaulted in public schools, while only about 5 percent were bothered or assaulted by other students in their private schools. And 93 percent of parents in the program reported that they were satisfied or very satisfied with the private school they had chosen, as compared to 33 percent who reported similar satisfaction with the public schools their children

had previously attended. Even parents who had left the McKay program reported that their private schools provided better services and were more satisfactory than their previous public schools; over 90 percent of these parents said the McKay program should continue even though they themselves were no longer using it.<sup>4</sup>

Judging from data provided by the Florida Department of Education Bureau of Exceptional Education and Student Services, the McKay program also appears to have reduced expensive antagonism between parents and school systems. Since McKay scholarships were first instituted in 2000, the number of mediations per 1,000 students has been reduced 11 percent; the number of state complaints filed have gone down 27 percent; the number of state complaint orders issued has been reduced by 41 percent; and the number of due process hearing requests has dropped by 7.5 percent. Since due process hearings are the required gateway to lawsuits, expensive legal actions also appear to have dropped after parents discovered an alternative to taking their own school to court.<sup>5</sup>

Utah has created a special education scholarship program of its own, modeled on Florida's McKay program. In Utah, the Carson Smith Scholarship Program for Students with Special Needs, launched in 2005, offers scholarships of either \$3,625.50 (for students who receive up to three hours a day of special-needs instruction) or \$6,042.50 (for students who receive more than three hours a day of special-needs instruction). This program served approximately 500 special-needs students in the 2005-06 school year.<sup>6</sup> Like Florida's program, the Carson Smith scholarships are available to any disabled student who finds a private school that can better serve his or her needs.

In 2003, Ohio began the Autism Scholarship Program, reimbursing parents for money spent on an autistic child's Individualized Education Plan at a public school outside their home district or at a private school. The scholarship levels are capped at \$20,000 per student and serve approximately 500 students.

Arizona also has initiated the Scholarships for Pupils with Disabilities program, which will provide scholarships worth about \$3,000 for most students, with severely disabled students receiving larger levels of support. The program technically began in 2006, but its start date was delayed past the start of the school year, so students will actually begin using the program in 2007.<sup>7</sup>

The opportunity to have a choice is especially important to parents whose children have unique needs. Virginia has not taken a very active role in the trend towards parental choice, and parents in Virginia have very few options. Consequently, parents have to send their child to whatever school they are geographically assigned to attend, regardless of whether that is the right school for their child's unique educational needs. Parents of special education students in particular have very few viable options if their child's public school placement turns out to be the wrong school for their child. This study calculates the fiscal impact of extending parental choice to special education students in Virginia's public schools.

## **Special Education Funding in Virginia**

Virginia public schools are funded through a very complex and somewhat circular system. The formula portion of student funding is based on the state Standards of Quality (SOQ), as determined by the legislature. Of the 11 components of this portion of student funding, nine are based on enrollment – specifically, the Average Daily Membership (ADM) of each school division on March 31 of the prior school year (see Table 1). This means that these nine components vary with enrollment levels.

The major portion of the SOQ formula funding is referred to as Basic Aid and is meant to cover most of the

Table 1

Components of State K-12 Funding in Virginia			
Account	Funding Based on March 31 ADM	Funding Based on Sept. 30 Fall Membership	Requires Local Match
<b>GROUP I. SOQ Programs:</b>			
Basic Aid	X		X
Textbooks	X		X
Vocational Education	X		X
Gifted Education	X		X
Special Education	X		X
Prevention, Intervention & Remediation	X		X
VRS Retirement (Includes RHCC)	X		X
Social Security	X		X
Group Life	X		X
English as a Second Language		X	X
Remedial Summer School			
<b>GROUP II. School Facilities Programs:</b>			
Lottery	X		X
Additional Lottery	X		X
School Construction Grants Program	X (Prior Year)		X
<b>GROUP III. Incentive Programs:</b>			
Alternative Education			
At-Risk	X		X
At-Risk Four-Year-Olds			X
Compensation Supplement	X		X
Early Reading Intervention		X	X
Enrollment Loss	X		
Academic Year Governor’s School			
ISAEP			
K-3 Primary Class Size Reduction		X	X
School Breakfast			
SOL Algebra Readiness		X	X
Special Education—Regional Tuition			
Supplemental Basic Aid	X		
Technology—VPSA		X	X

operational expenses required to educate a typical student. To determine the Basic Aid associated with each student in a school division, the maximum number of teachers the state will fund for each grade level in each division is calculated, based on the ADM and pre-determined guidelines for the minimum and maximum number of students per type of teacher. The average salary for each type of position is then multiplied by the number of positions required by the enrollment to arrive at a total allowable salary cost.<sup>8</sup> This number is divided by the number of students to derive an average Basic Aid dollar amount per ADM, known as the Basic Aid PPA. In other words, the number of students determines the total allowable personnel costs. This number is then divided by the number of students to get an average. This average is then multiplied by the forecasted number of students the division will have in the next year to determine total funding.

Special education funding follows the same approach. The Virginia legislature identifies 14 categories of disability.<sup>9</sup> Each has a maximum allowable student-to-teacher ratio. The number of students in each school division who fall into each of the 14 categories determines the number of teachers the state will fund. The number of teachers is multiplied by an average salary figure to arrive at a total cost for each category. This total is divided by the total ADM of the division. That is, special education funding is provided to school divisions based on the total number of students in the division, not the number of special education students.

The rationale behind Virginia's approach to special education funding is to avoid creating a financial incentive to identify students as disabled. In most states, school districts automatically receive additional funding for each additional student they identify as disabled. Empirical studies have shown that such systems dramatically increase the rate of growth in special education enrollment, because they provide districts with an incentive to over-identify student disabilities and thus maximize their funding.<sup>10</sup>

It is commendable that Virginia alleviates this problem by funding special education primarily based on the total number of students in each division rather than the number of special education students in each division, so that additional diagnoses are not directly rewarded with a financial payoff (although they do have an indirect effect on funding levels through the number of teachers to be funded). However, this system also creates a mismatch between revenues and costs. A division with an above-average percentage of special education students will not generate much more special education revenue than one with a below-average percentage of special education students, but it will have higher special education costs.

Finally, all of the components of the SOQ formula other than the sales tax and remedial summer school require local matching funds. The amount of matching funds is determined by applying a Local Composite Index (LCI) to the total required amount of funding determined by the state. The LCI is calculated for each school division and reflects a combination of its property wealth relative to the state, its retail sales relative to the state and its income relative to the state.<sup>11</sup> These three components are meant to reflect a division's local ability to pay. The LCI is capped at 0.8, meaning the local division must provide 80 percent of the funds required by the state funding formulas; six of the state's 136 school divisions - Arlington, Alexandria, Falls Church, Fairfax City, Goochland and Williamsburg — are at this level. The division with the lowest LCI is Lee, at 0.1769.

## The Fiscal Impact of Special Education Parental Choice in Virginia

When students enter and leave a public school district, they should have an impact on both the amount of money coming into the district and the amount that is spent by the district. Money comes into school districts from three sources: the federal government, predominantly through grants under the No Child Left Behind Act; the state government, through the state's share of the education funding required by Virginia's funding formula system; and

the local government, mostly through property taxes. This money is then spent in the manner determined by the local school board, based on the needs outlined in the superintendent’s spending plan, or budget.

A parental choice program for special education would divert a portion of the state funding associated with each particular student and allow his or her parents to use a Tuition Assistance Grant (TAG) at an accredited private school. The loss of this student from the district’s enrollment count will affect revenue from federal, state and local sources. The district’s costs will also be affected, since the district will no longer have the responsibility of educating that student.

This study examines the fiscal effect of TAG Grants on local school divisions, looking at both revenues and costs. On the revenue side, we use the most recent available data (from Fiscal Year 2005) to calculate the net impact of the departure of a student on school division revenue. Some sources of revenue vary with student enrollment while others do not; this creates a financial windfall for school divisions, since some funds are left behind in the division even after students leave. On the cost side, we use the most recent available data (from Fiscal Year 2007) to calculate the net fiscal impact of reduced special education costs. While the departure of a special education student reduces school division revenue, it also reduces the division’s special education costs. The difference between the reduction in per-student costs and the reduction in per-student funding represents an additional fiscal impact of the program. We use data from different years in order to ensure the most accurate and detailed analysis possible; this does create some discrepancies between our revenue analysis and cost analysis, and the reader should bear this in mind when interpreting our results. However, these discrepancies are not large enough to cast any doubt on the main finding of the study.

Special education students generate federal grant revenue for their districts through the Individuals with

**Table 2**

<b>Special Education Financing in Virginia</b>	
	Statewide Average
Enrollment (Adjusted ADM-DOE Projection)	8,801
Composite Index	0.3860
Basic Aid per ADM	\$5,430
Textbook per ADM	\$100
Vocational Education per ADM	\$116
Gifted Education per ADM	\$41
Special Education per ADM	\$551
Prevention, Intervention, and Remediation per ADM	\$109
VRS Retirement per ADM	\$310
Social Security per ADM	\$245
Group Life PPA	\$14
Remedial Summer School PPA	\$412
Lottery PPA	\$233
Additional Lottery PPA	\$9
Compensation Supplement PPA	\$115
Total State Formula Funding	\$7,685
Local Share	\$2,977
State Share	\$4,708

Note: Figures are for Fiscal Year 2007. Here and in all tables throughout this study, figures may not sum due to rounding.

Disabilities Education Act (IDEA). This law contains a grant formula that depends on the number of students in a district identified as receiving special education services and the statewide average spending per student.<sup>12</sup> However, the formula is complicated. If a state's average per-student spending is less than 90 percent or more than 110 percent of the national average spending per student, the formula will use the closest amount within those limits rather than the actual spending amount. Further, districts are guaranteed to receive at least 85 percent of their prior-year allocation, even if the number of eligible students declines. Finally, each state, regardless of size, is guaranteed to receive at least a certain minimum share of the total appropriation. As a result of these hold-harmless and small-state provisions, the amount of money a school district ultimately receives is only very loosely related to the actual number of students in that district identified as having special education needs.

For the sake of this analysis, we will assume that 15 percent of a district's per-student IDEA funding will go away when a special education student uses a TAG Grant. This is the most conservative assumption we can make, because districts are guaranteed to receive at least 85 percent of their prior year funding even if its number of special education students declines. In fact, it is much more likely that the total federal revenue received by a district would be unaffected.

State revenue associated with a special education student in Virginia has been briefly discussed above. In essence, each student generates approximately the same amount of state revenue for the district regardless of whether that student receives special education services. Once the total allowable costs have been calculated for each of the programs funded by the SOQ formula, they are divided into the number of students in the school division. Consequently, when a special education student leaves a division, the loss of state revenue is the same as it would be for a non-special-needs student.

It should also be noted that because each school division receives a different amount for the nine formula-funded programs and has a different LCI, the change in state revenue when a special education student uses a TAG Grant is different for each division. On average, the total amount of revenue required by the state formula-funded programs is \$7,685 per student (see Table 2), with the highest value at \$10,387 in Highland County, the smallest division in the state. On the low end, Poquoson County has formula-funded revenue of \$6,924 per student.

This total amount of state formula revenue per student is divided between the state and the local school divisions by way of the LCI. As a result, the amount of money the division gains or loses when a student enters or leaves is only the state share of the total. As has been noted above, six divisions – Arlington, Alexandria, Falls Church, Fairfax City, Goochland and Williamsburg – have the maximum Composite Index value of 0.8. Thus, their local share is 80 percent of the total. Lee County has the lowest Composite Index value at 0.1769, meaning the division pays just under 18 percent of the required SOQ formula revenue. The average state share of the formula-required amount is \$4,708 and the average local share is \$2,977. The statewide average Basic Aid levels are listed in Table 2.

In addition to SOQ revenue, districts receive sales tax revenue from the state. The tax rate of 1.125 percent on retail sales is divided among districts according to their pro rata share of children in the state, as determined by the triennial Census count. This state revenue is not dependent on students being in the public school system, and thus would not be affected by a TAG program. Therefore, total district sales tax revenue should be unchanged when students change schools within a district, whether public or private.

Local revenue generally is raised from property taxes. In the short term, this does not depend on the number of students, but on the value of the property inside the division and the tax rate. It is true that the tax rate will partly reflect the number of students in the division and the amount of money the local school board and the superintendent believe they need to educate these students adequately. However, because the property taxes fund not only the local schools, but also other components of local government such as police, fire, libraries and social services, it will also reflect many other influences, such as the political preferences of local voters. In any event, a parental choice program is unlikely to change enrollment levels enough to induce a change in property tax rates. For purposes of this analysis,

Table 3

<b>Tuition Assistance Grants for Special Education Would Create an Average Fiscal Gain of \$5,214 in School Division Revenue</b>	
<b>SOQ State Revenue per ADM</b>	<b>\$3,650</b>
<b>State Sales And Retail Use Tax</b>	<b>\$850</b>
<b>85% Of Federal Revenue Per ADM</b>	<b>\$707</b>
<b>Local Operating Revenue per ADM</b>	<b>\$3,656</b>
<b>Revenue Remaining in Division After \$5,000 TAG Grant</b>	<b>\$5,214</b>
<b>Cost to State of TAG Grant</b>	<b>\$1,350</b>
<b>Net Effect of TAG Grant on Public School Revenue (Division Gain - State Cost)</b>	<b>\$3,872</b>

Note: Figures are for Fiscal Year 2005.

we assume that local revenue will be unchanged when students move in or out of a school division, as this is almost certain to be the case in the short term.

In addition to assessing revenue from these three sources (local, state and federal), we must also determine how much money the TAG Grant would be worth. Ideally, any such determination would match legislative proposals and laws in other states that call for such grants to equal the level of funding that would have been spent on the student by the state if the student had remained in public school. However, to analyze the fiscal impact of such a program in Virginia would be prohibitively difficult.

Consequently, for this analysis, we examine a uniform TAG Grant worth \$5,000. This amount was selected because it is roughly equivalent to the average state share of SOQ formula revenue per student, which is \$4,708. If a student attended a school that charged less than \$5,000 tuition, the grant would divert less than \$5,000 in funding. However, for purposes of our analysis, we make the conservative assumption that every student will use the maximum value of the TAG Grant.

Our analysis finds that when a student left a school division to use a \$5,000 TAG Grant, the net revenue impact on the average division would be a loss of \$4,708 in state funding, but a retention of \$5,214 in state sales tax, local and federal revenue (see Table 3). Thus, even though the division is no longer responsible for educating the student, a great deal of revenue remains in the system that can be spread among the remaining students.

Finally, the cost side of the equation must be examined. Education expenditure levels are determined at the local level. Each school division develops a budget based on its anticipated revenue level. Local officials such as administrators and school boards have very broad discretion to determine how funds are spent, within the limits of federal, state and local laws. More important, the local school board and school superintendents must determine how flexible their spending should be and to what degree it should reflect the number of students enrolled. Often it is claimed that 85 percent of local spending is fixed, as this is the amount dedicated to salaries and benefits. However, it is always possible to change the number of teachers, and even the number of schools, as enrollment changes.

It is inherently difficult to assess how changes in enrollment will impact costs, and the correct approach for doing so is strongly debated. This problem is exacerbated further when it comes to special education. For example, while most students require only a few hours a day out of the classroom with a specialist such as a speech therapist, a few students require the full-time care of a staff member, plus specialized equipment, transportation, etc.

Thus, any attempt to determine how costs will change when students leave unfortunately becomes a discussion of averages. Special education costs in Virginia are extremely variable and only somewhat dependent on a student’s type of disability. While this analysis will rely on average costs per student for each of the 14 categories of disabilities,

**Table 4**

<b>Special Education Expenditures per Student Vary Dramatically</b>	
<b>Virginia School Divisions with One Visually Impaired Student</b>	<b>Total Visual Impairment Expenditures</b>
Division 1	\$700
Division 2	\$3,168
Division 3	\$4,290
Division 4	\$5,084
Division 5	\$5,131
Division 6	\$5,208
Division 7	\$5,262
Division 8	\$6,306
Division 9	\$6,373
Division 10	\$6,374
Division 11	\$7,308
Division 12	\$7,907
Division 13	\$8,012
Division 14	\$8,085
Division 15	\$8,601
Division 16	\$8,958
Division 17	\$9,226
Division 18	\$11,526
Division 19	\$11,855
Division 20	\$11,977
Division 21	\$15,455
Division 22	\$17,387
Division 23	\$30,860
Division 24	\$42,126
Division 25	\$47,666
Division 26	\$64,467
Division 27	\$131,923
<b>Average</b>	<b>\$14,764</b>

Note: Figures are for Fiscal Year 2005. Division names have been redacted to protect student confidentiality.

it is important to remember that some school divisions spend much more than others on the same type of special education student.

Technically, it should be possible to determine spending levels per student by beginning with data from school

divisions that have only a single student for a given category. From there, the trend should be that divisions with more students identified in a category have a lower average cost, as economies of scale can be employed.

Unfortunately, state data indicate that special education spending in Virginia does not follow this pattern. Table 4 indicates the variability in the cost of educating a visually impaired student in Virginia school divisions that have only a single student identified in this category. The per-student expenditures range from \$700 to \$131,923. Clearly, there are going to be school divisions where a single student requires his or her own teacher and additional related expenses, as well as other divisions where the student requires only the attention of an existing teacher for a limited amount of time each day, as a diagnosis of “visual impairment” does not mean the same thing for every student. Therefore, it should be noted that the average per-student expenditure of \$14,764 for visually impaired students does not represent a typical value.

In addition, in those instances where a student requires his or her own full-time teacher, the entire per-student expenditure should be eliminated if that student receives and uses a scholarship. But in cases where resources are being shared across disability categories, all the costs attributed to that one student may be transferred to another disability category after that student leaves, with no reduction in overall costs. For this reason, it often is argued that it is impossible to forecast how costs will change as students come and go. For the purposes of this analysis, however, we will assume that using an average per-student expenditure for each category for each school division will cause the extremes to cancel each other out. Also, while divisions may not be able to adjust their costs substantially in the short run when a student leaves, in the long run the new level of expenditures should be related to the new levels of enrollment.

Table 5

Tuition Assistance Grants for Special Education Would Save Virginia \$6,729 per Student in Costs on Average						
	Disability Spending per Student	Support Services Spending per Student	Total Spending per Student	Net Gain to Divisions	Cost to state	Net Gain Overall
Mental Retardation	\$9,162	\$1,059	\$10,221	\$5,521	\$292	\$5,229
Severe Disability	\$18,593	\$1,059	\$19,652	\$14,952	\$292	\$14,660
Hearing Impairment	\$12,040	\$1,059	\$13,098	\$8,398	\$292	\$8,106
Speech/Language Disorder	\$4,245	\$1,059	\$5,304	\$604	\$292	\$312
Visual Impairment	\$14,764	\$1,059	\$15,823	\$11,123	\$292	\$10,831
Emotionally Disturbed	\$9,495	\$1,059	\$10,554	\$5,854	\$292	\$5,562
Orthopedic Impairment	\$10,094	\$1,059	\$11,153	\$6,453	\$292	\$6,161
Other Health	\$5,442	\$1,059	\$6,501	\$1,801	\$292	\$1,509
Specific Learning Disability	\$6,338	\$1,059	\$7,397	\$2,697	\$292	\$2,405
Deaf/Blind	\$12,537	\$1,059	\$13,596	\$8,896	\$292	\$8,604
Multiple Disability	\$12,408	\$1,059	\$13,467	\$8,767	\$292	\$8,475
Autism	\$11,268	\$1,059	\$12,327	\$7,627	\$292	\$7,335
Traumatic Brain Injury	\$11,192	\$1,059	\$12,251	\$7,551	\$292	\$7,259
Developmentally Delayed	\$7,605	\$1,059	\$8,664	\$3,964	\$292	\$3,672

Note: Figures are for Fiscal Year 2007.

As Table 5 indicates, the average cost of educating a special education student in Virginia ranges from \$4,245 for a student with a speech/language disorder to \$14,764 for visually impaired students. Across all disability types, the average special education student costs \$5,670 to educate. In addition, all school divisions incur support costs for their special education programs. On average, support costs amount to \$1,059 per child. Therefore, the average reduction in cost from the loss of a special education student is \$6,729. This is strictly the change in cost to the special education programs of a division, and does not account for other potential reductions in cost from other categories such as regular programs, transportation, food service, etc. Consequently, for most students the actual cost reduction will be greater than our estimate suggests.

Although school divisions are able to reduce their costs when a student leaves, if the students are receiving grants worth \$5,000 from the state, the state will incur an average cost of \$292 per student – the difference between the average SOQ formula contribution of \$4,708 and the TAG Grant of \$5,000. The net effect on cost, including the effects on both state and division finances, is an average savings of \$6,729 per student who uses the TAG Grant. And even if we assumed that “fixed costs” remaining with school divisions after students left with TAG Grants were much higher – including all support costs, or even as much as 30 percent of all costs associated with each student – that would still leave a net gain of thousands of dollars to the average local school division for each child participating in the program.

Combining the two sides of the equation – revenue and costs – results in the following: Divisions would retain, on average, \$5,214 in revenue, even after the loss of state formula revenue, for each special education student using a \$5,000 TAG Grant to attend a private school. This represents the fiscal gain that occurs because expenditures vary with enrollment but some revenues do not vary with enrollment; when a student leaves with a scholarship, the division's spending can decline by a full student's worth, but its revenues are not reduced by a full student's worth. In addition, division costs would be reduced by \$6,729 per student, on average. This represents the fiscal gain that occurs because of Virginia's unusual special education funding system. Special education students generate only slightly more revenue than regular students, but cost much more to educate; when these students leave their public school system, divisions will see a corresponding fiscal gain.

## Conclusion

Providing parental choice for special education students would extend an alternative to students who are not currently being served appropriately in the special education system, and who currently have no feasible options. It is difficult to say how many parents would opt for such a program; after six years, Florida's McKay program - which offers an average scholarship of \$6,926 - has a participation rate of about four percent of eligible students. Yet it is important to realize that regardless of the number of students who ultimately use it, the result of parental choice will be more satisfied parents, regardless of income; a likely increase in the supply of high-quality private special education programs; and a net financial gain to the public school system.

## Endnotes

<sup>1</sup> Individuals with Disabilities Education Act, Public Law 108-446.

<sup>2</sup> The landmark case in this area is *Florence County School District Four v. Shannon Carter*, in which the U.S. Supreme Court ruled that the school system lost its right to educate a disabled student if it failed to provide an "appropriate public education" as required by IDEA. For more information see Brent Staples, "How the Clip 'N Snip's Owner Changed Special Education," *New York Times*, Jan. 5, 2002.

<sup>3</sup> Florida Department of Education, Office of Independent Education and School Choice, "John M. McKay Scholarship for Students with Disabilities Program: Fast Facts," July 2006.

<sup>4</sup> Jay P. Greene and Greg Forster, "Vouchers for Special Education Students: An Evaluation of Florida's McKay Scholarship Program," Manhattan Institute, June 2003.

<sup>5</sup> Figures based on data from two sources: "Students with Disabilities Enrollment, Ages 6-21, 2005-06," Florida Department of Education, available at <http://www.firn.edu/doe/bin00014/pdf/b-621-06.pdf>; and *Administrator's Management Meeting Databook*, Florida Department of Education, p. 97-98 and 103-104.

<sup>6</sup> Dan Lips and Evan Feinberg, "School Choice: 2006 Progress Report," Heritage Foundation, Sept. 18, 2006.

<sup>7</sup> Milton and Rose D. Friedman Foundation, *ABCs of School Choice*, 2006-07 Edition.

<sup>8</sup> Similar ratios of maximum allowable administrative positions are applied in the Basic Aid calculation, both at the school level and the district level.

<sup>9</sup> These are autism, deaf-blindness, developmental delay, emotional disturbance, hearing impairments, mental retardation, multiple disabilities, orthopedic impairments, other health disorders, severe disability, specific learning disabilities, speech or language impairments, traumatic brain injury, and visual impairments. Of these, specific learning disabilities is by far the largest category, accounting for over 40 percent of all Virginia special needs students (see IDEA Part B child count, available at <https://www.ideadata.org/PartBdata.asp>.)

<sup>10</sup> See Jay P. Greene and Greg Forster, "Effects of Funding Incentives on Special Education Enrollment," Manhattan Institute, December 2002; and Julie Berry Cullen, "The Impact of Fiscal Incentives on Student Disability Rates," National Bureau of Economic Research, June 1999.

<sup>11</sup> The Composite Index equals  $0.5 \times ((\text{Local true value of real property} / \text{Local population}) / (\text{Total local true value of real property statewide} / \text{State population})) + 0.4 \times ((\text{Local adjusted gross income} / \text{Local population}) / (\text{Total adjusted gross income statewide} / \text{State population})) + 0.1 \times ((\text{Local taxable retail sales} / \text{Local population}) / (\text{Total taxable retail sales statewide} / \text{State population}))$ .

<sup>12</sup> Individuals with Disabilities Education Act, Public Law 108-446, Part B, Sect. 611.

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