



A ROADMAP FOR IMPROVING NEW JERSEY'S
SCHOOL FUNDING FORMULA:

**THE IMPACT OF CENSUS-BASED
FUNDING FOR SPECIAL EDUCATION**

Danielle Farrie, Ph.D. & Nicole Ciullo

April 2024

About the Authors

Danielle Farrie, Ph.D., is Research Director at Education Law Center. Since 2008, she has conducted research and data analysis to support public policy advocacy for ELC and partner organizations. Dr. Farrie is the lead author of ELC's ***Making the Grade*** report and has authored book chapters and peer-reviewed articles on topics such as school finance and school segregation. She has testified about school funding issues before numerous state and national commissions and has provided expert testimony in state school funding lawsuits. She holds a Ph.D. in sociology from Temple University.

Nicole Ciullo is Research and Policy Associate at Education Law Center. She tracks legislative, policy, and research developments impacting K-12 public schools nationwide, gathers and analyzes data and assists in the writing and production of reports and publications. Nicole received a B.A. in Spanish and Sociology from The College of New Jersey, and a master's degree in Public Administration from Rutgers University-Newark.

About Education Law Center

Education Law Center (ELC) pursues justice and equity for public school students by enforcing their right to a high-quality education in safe, equitable, non-discriminatory, integrated, and well-funded learning environments. We seek to support and improve public schools as the center of communities and the foundation of a multicultural and multiracial democratic society. We strive to secure and protect the rights of students who are underserved, experience inadequate learning opportunities, or face discrimination based on race, ethnicity, socioeconomic status, language, religion, sex, sexual orientation, gender identity, immigrant or migrant status, or disability. To achieve these goals, we engage in litigation, research and data analysis, policy advocacy, communications, and strategic partnerships and collaborations

Executive Summary

In an effort to reduce state spending on special education in public schools, New Jersey moved to census-based funding as part of the new school funding formula, the School Funding Reform Act (SFRA), adopted in 2008. The census approach funds all districts using the statewide average classification rate and a statewide average "excess cost." In this report, we find:

- Classification rates for special education vary greatly among school districts, resulting in the inequitable distribution of resources to fund districts' actual special education enrollment. In 2022-23, 60% of school districts were funded for fewer special education students than they enrolled, a 12 percentage point increase from 2009-10, the year after the transition to census funding.
- In 2022-23, districts with classification rates higher than the statewide average received \$378 million less than if they were funded on their actual special education enrollment.
- Districts with higher-than-average classification rates must divert funding from general education programs or raise additional local revenue to fill the gap for unfunded special education students. About half of the underfunded districts would have to divert more than \$600 per pupil from general education to cover these unfunded students.

Education Law Center (ELC) recommends that the Governor, Legislature, and New Jersey Department of Education (NJDOE) include an analysis of special education funding as part of a comprehensive review of the SFRA. The Governor and Commissioner of Education are required to review the formula every three years through the Educational Adequacy Report (EAR), and the next EAR is due in time to inform the FY2026 state budget. While modifying the method used to fund special education is not allowed through the EAR, the NJDOE should include discussions of special education funding in a broader analysis of the formula. Recommended improvements can then be enacted through separate legislation.

ELC calls for the Legislature to take the following immediate steps:

- Include an appropriation in the FY2025 budget for the NJDOE to conduct a comprehensive review of the SFRA, including an analysis of the special education funding method;
- Require the review to include community and stakeholder engagement and consultation with school finance researchers with expertise in special education funding;
- Increase the Extraordinary Special Education Aid allocation in the FY2025 budget so that school districts are appropriately reimbursed for eligible, high-cost student placements.

Introduction

In 2008, New Jersey changed how the state funds special education in public schools as part of the School Funding Reform Act (SFRA). The new school funding formula adopted a census-based model, which funds all districts using the statewide average classification rate and a statewide average “excess cost.”

This model replaced the previous system that differentiated state special education aid based on four different tiers of student need. A dollar amount was assigned to each tier; students were assigned to tiers based on their disability; and districts received funding based on the total number of students they served in each tier. In contrast, the census model assumes that all districts serve a proportionate number of special education students, and that the average spending per pupil in each district is equal to the state average. This method disregards variations in classification rates and the uneven distribution of high- and low-cost disabilities.

The rationale for switching to a census-based model was at least partially to control New Jersey’s special education costs, which a report had recently identified as 40% higher than the national average.¹ School finance experts claimed that census funding would reduce costs by disincentivizing districts from overclassifying or misclassifying students into incorrect tiers. However, classification rates have continued to climb, from 14.8% in 2008-09, to 15.9% in 2022-23, and the average excess cost for education has increased from \$15,337 to \$19,524. Contrary to hopes the

new funding model would encourage districts to develop inclusive settings and in-district programs instead of high-cost, out-of-district placements, advocates have raised the possibility that the census method disincentivizes districts from developing specialized programs for students with disabilities because they may not receive funding for the students they would attract.

The SFRA included a statutory mandate for the Commissioner of Education to complete an independent study of the census methodology and issue recommendations to the Legislature regarding any needed adjustments to the state’s special education formula.² In 2011, the state commissioned Augenblick, Palaich and Associates (APA) to study the impact of the change in special education funding on New Jersey school districts.³ APA concluded that it was difficult to assess the impact of census funding based on the brief period of implementation, the lack of full SFRA funding, and limitations in the data collected by the New Jersey Department of Education (NJDOE). They recommended that the state address these shortfalls by fully implementing the census funding system, increasing data collection on where students are funded/served and the costs of serving different disability types, and conducting an analysis of enrollment patterns and costs across districts. Over a decade later, the SFRA remains underfunded, and the NJDOE has not publicly released any further assessment of the census-based funding system.

1 Chambers, J., Parrish, T. & Brock, L. [New Jersey Special Education Expenditure Project Final Report](#).

2 Education Law Center. 2011. [Special Education Funding Study Mandated by SFRA Nearly One Year Overdue](#).

3 Augenblick, Palaich and Associates. 2011. [Analysis of New Jersey’s Census-Based Special Education Funding System](#).

Advocates, researchers, and stakeholders expressed disapproval of the switch to census funding even before the SFRA’s implementation.⁴ More recently, the thirteen-member New Jersey Coalition for Special Education Reform, the New Jersey Council on Developmental Disabilities, and the New Jersey School Boards Association issued reports critical of the state’s current funding mechanism.⁵ Despite widespread agreement that census funding does not work for New Jersey students, no action has been taken by the state to improve the funding model.

In this report, we show that census-based funding does not meet the needs of New Jersey school districts and the students, in both special and general education, they serve. The analyses presented in this report demonstrate the need for New Jersey to convene school finance and special education experts to explore and recommend alternative funding models for special education that would better meet the needs of the state’s school districts.

How Census-Based Funding Works

The census-based funding model funds all districts as if they serve the same percentage of special education students. Districts are funded at the statewide average classification rate – 15.9% in 2022-23 – regardless of whether their actual classification rate is higher or lower. The SFRA sets a per-pupil allocation based on the statewide average “excess cost” for a special education student. In 2022-23, this excess cost was \$19,524.⁶ Districts also receive additional funding for extraordinary special education to cover a percentage of high-cost special education programs.

A district’s special education funding is calculated as:

$$\begin{aligned} & \text{Resident Enrollment x} \\ & \text{Statewide Average Classification Rate x} \\ & \text{SFRA Excess Cost x GCA} \end{aligned}$$

where GCA is the SFRA’s geographic cost adjustment. One-third of this total is funded as a categorical aid that is paid fully by the state. The remaining two-thirds are wealth-equalized and split between a state and local share. Districts with greater fiscal capacity are expected to fund this portion largely through local tax dollars, while districts with less capacity receive a greater share of this funding through state aid.

Both of the core components of census funding are subject to criticism for failing to recognize year-to-year and district-to-district variations in the characteristics of the special education population. First, funding all districts based on the statewide average classification

4 See Kolbe, T., McLaughlin, M.G., & Mason L.M. 2007. *Special Education Funding in New Jersey*. Education Law Center; Powell, J. & Ball, A. 2007. *Special Education Review Commission Report*.

5 New Jersey School Boards Association, Task Force on Special Education. 2014. *Special Education: A Service, Not A Place*; The New Jersey Council on Developmental Disabilities. 2022. *Paying for Special Education*. Common Ground.

6 As with all components of the SFRA, the excess cost is indexed to a regional cost adjustment, so the actual per-pupil values vary slightly by county.



rate ignores the significant variation in classification rates between districts and within districts over time. Second, funding all students at the average excess cost ignores variation in actual special education costs stemming from the severity of the disability and the types of services required to educate students. Because data are not currently available to assess districts' actual per-pupil expenditures relative to the state average excess costs, this report focuses solely on the fiscal consequences of using the statewide average classification rate. The fiscal impact of not differentiating funding based on the per-pupil costs of services adds another layer of complexity to the findings presented here.

It is also important to note that this analysis demonstrates the effect of the census model under the hypothetical condition of a fully funded SFRA. In fact, the state has yet to fully fund its share of the SFRA, and about one-quarter of school districts have not raised their required local share, while others are raising local funds in excess of what is required by the formula. The funding gaps reported here are meant to assess the effect of the census model when the formula is operating optimally, with both state and local funding at the minimum set by the SFRA. Current funding gaps may be either more or less severe, depending on whether a district is above or below the funding targets in the SFRA.⁷

What is Extraordinary Special Education Aid?

Extraordinary aid is a separate funding mechanism from the census-based system described in this report. Districts receive reimbursement for high-cost special education expenditures that exceed certain thresholds. The amount of the reimbursement varies by educational setting. Districts must cover the full cost of any special education services below the threshold.

The reimbursement rates are as follows: 90% of costs above a \$40,000 threshold for in-district placements; 75% of costs above a \$40,000 threshold for placements in a separate public school program for students with disabilities; and 75% of costs above a \$55,000 threshold for students placed in a separate private school for students with disabilities. Extraordinary aid has historically been underfunded by the state: in 2022-23, districts received reimbursement for only 72% of their eligible costs.

⁷ See ELC's reports, [Spending Targets Under the School Funding Reform Act](#) and [The Color of Opportunity: How Formula Underfunding Disproportionately Impacts New Jersey's Black and Latino Students](#), for more on funding gaps under the SFRA.



Inequities Resulting From Census-Based Funding

Classification rates in New Jersey school districts vary widely, from a low of **3%** to a high of **34%**. The majority of districts have classification rates that exceed the statewide average, which means that the SFRA underfunds most districts relative to their actual special education enrollment. In fact, more districts are underfunded now than in 2009-10, the year after census funding was implemented. In 2022-23, the state underfunded special education in 60% of school districts, compared to 48% in 2009-10. In 2022-23, 54% of K-12 students were educated in districts where the state underfunded special education (Figure 1).

The SFRA’s census method underfunded districts with classification rates higher than the statewide average by **\$378 million** in 2022-23. On average, the state funded these districts for only 85% of their actual special education enrollment, essentially reducing special education funding by about \$2,896 per classified student (Figure 2). By contrast, districts with classification rates below the statewide average received **\$287 million** more than they would have received based on actual enrollment. On average, these districts were funded for 118% of their actual special education enrollment, which is an additional \$3,612 per classified student.

Figure 1. Distribution of Districts and Students Relative to Statewide Average Classification Rate

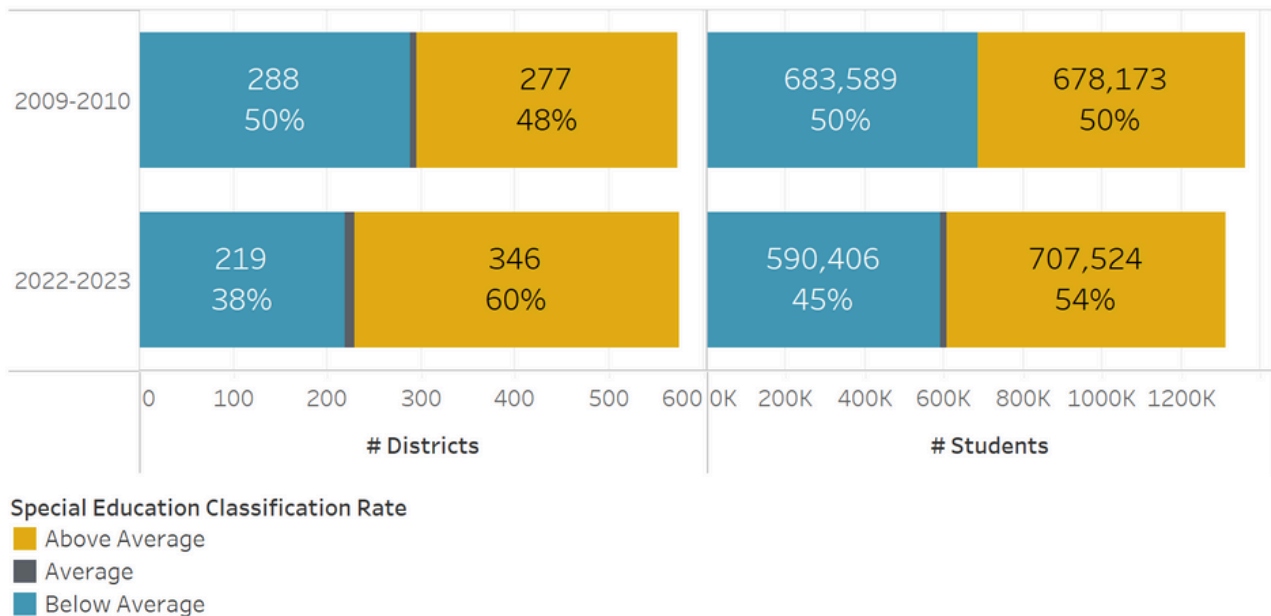
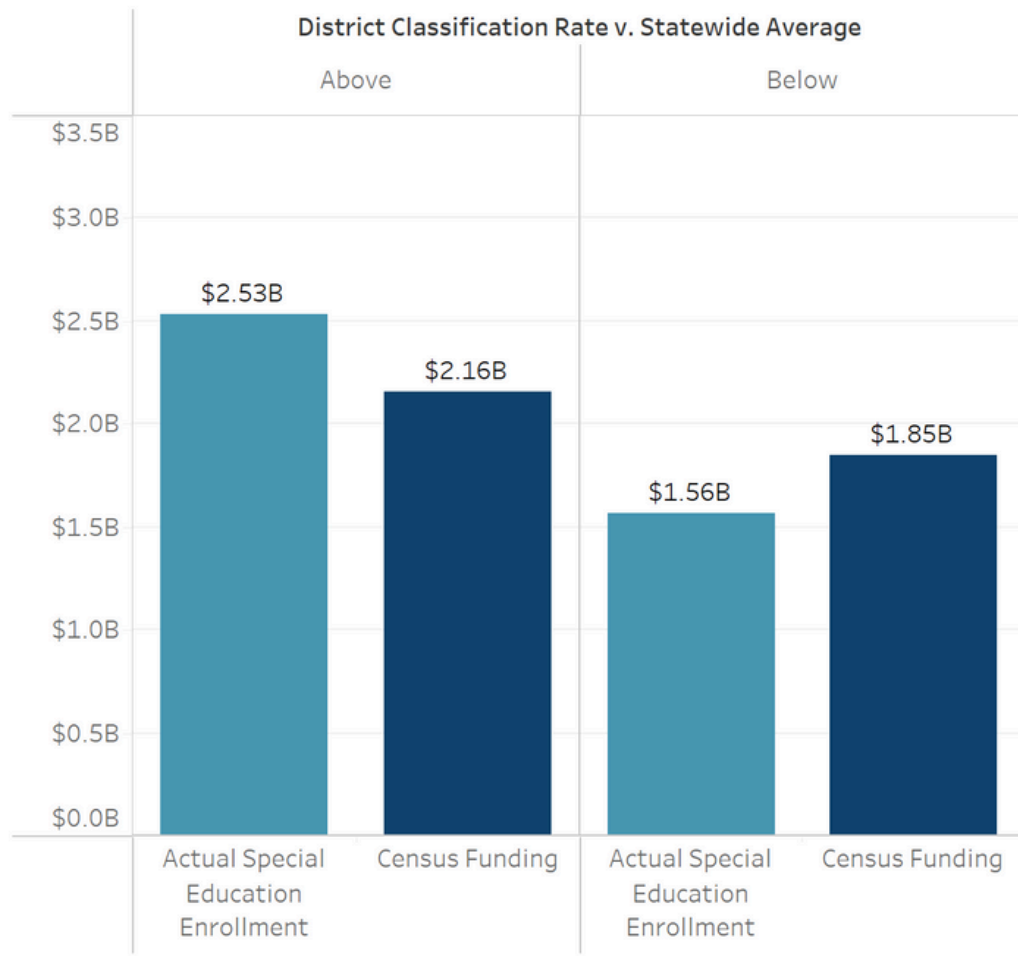


Figure 2. Census Method Special Education Funding Gaps, 2022-23



Classified Students	130,478	79,496
Funded by Census	110,908	94,101
Difference	19,570	-14,605
Per Pupil Funding Gap	-\$2,896	\$3,612

The degree of difference from the statewide average classification rate determines the funding gaps at the district level (Figure 3). Some districts are only a few tenths of a percentage point above or below the average classification rate, so their effective per-pupil special education funding is only a few hundred dollars different from the SFRA-defined excess cost (\$19,524 in 2022-23). But even a 1% increase in a district’s classification rate above the statewide average reduces the

effective funding rate by over \$1,000 per classified pupil. In a district with a classification rate that is 50% higher than the state average, the funding allocated for each classified student is reduced by about \$6,500 per pupil. Likewise, districts with classification rates slightly lower than the state average will receive minimal extra funding per classified student, while those with dramatically fewer classified students receive significantly more per classified student.

Figure 3. Per-Pupil Special Education Funding Gaps Resulting from Census Method, 2022-23



Largest and Smallest Funding Gaps Per Classified Student

Top 10	District	County	Enrollment	Classified Students	Funded by Census	Effective Funding Per Classified Student	Difference from SFRA Excess Cost
Above Average Classification Rate	Seaside Park Boro	Ocean	33	10	4	\$7,558	-\$11,337
	Bass River Twp	Burlington	88	23	11	\$9,196	-\$10,032
	Woodbine Boro	Cape May	253	84	38	\$8,378	-\$10,031
	Lakewood Twp	Ocean	5,170	1,741	874	\$9,488	-\$9,407
	Seaside Heights Boro	Ocean	173	57	29	\$9,613	-\$9,282
	Rockleigh	Bergen	23	7	4	\$11,213	-\$8,410
	Monmouth Regional	Monmouth	940	252	143	\$11,027	-\$8,405
	Highlands Boro	Monmouth	150	42	24	\$11,104	-\$8,328
	Little Egg Harbor Twp	Ocean	1,359	386	217	\$10,623	-\$8,273
	Keansburg Boro	Monmouth	1,459	422	243	\$11,203	-\$8,229
Below Average Classification Rate	Atlantic Co Vocational	Atlantic	1,757	144	287	\$37,718	+\$18,793
	Harrison Twp	Gloucester	1,307	97	200	\$39,060	+\$20,116
	Union County Vocational	Union	1,898	146	307	\$41,945	+\$22,065
	Morris County Vocational	Morris	1,449	117	252	\$42,804	+\$22,931
	Irvington Township	Essex	7,848	559	1,203	\$43,013	+\$23,026
	Hudson County Vocational	Hudson	2,526	184	427	\$46,853	+\$26,664
	Cumberland Co Vocational	Cumberland	1,086	78	197	\$46,993	+\$28,387
	Beach Haven Boro	Ocean	60	3	10	\$62,984	+\$44,089
	Avalon Boro	Cape May	40	2	6	\$73,637	+\$55,228
	Franklin Twp	Warren	172	6	28	\$88,014	+\$69,154

In an extreme example, Franklin Township in Warren County had a classification rate of 3% in 2022-23. Because the district was funded for far more special education students than it enrolled, under a fully funded SFRA the district would receive about \$88,000 per classified student, far above the SFRA's excess cost.

In comparison, Seaside Park Boro in Ocean County had a classification rate of 30% in 2022-23. Only 40% of Seaside Park Boro's actual special education student enrollment was funded under the census method. The SFRA allocated \$7,558 per classified student in the district, creating a gap of \$11,377 per student relative to the average excess cost.

It is worth noting that five of the ten districts with the lowest classification rates were county vocational systems. These school districts often have selective admissions criteria that create barriers to acceptance for students with disabilities, resulting in classification rates far below the state average. For example, Cumberland County Vocational's actual classification rate was only 7% in 2022-23. Under a fully funded SFRA, the district would receive about \$28,400 more per pupil than the average excess cost.

How does your district fare under the census-based special education funding model? Find out [here](#).

Diversion of Funding to Cover Unfunded Special Education Students

Because school districts are legally required under federal law to provide a Free and Appropriate Public Education (FAPE) to all students with disabilities, districts with special education classification rates that exceed the statewide average must either raise additional local revenue or divert funding from general education to cover the costs for unfunded special education students. Districts may cut academic programs, extracurriculars, and/or other schoolwide initiatives to fill the gaps between state funding for special education and actual costs. This negatively impacts *all* students in underfunded districts, who lose access to vital programs and learning opportunities.⁸

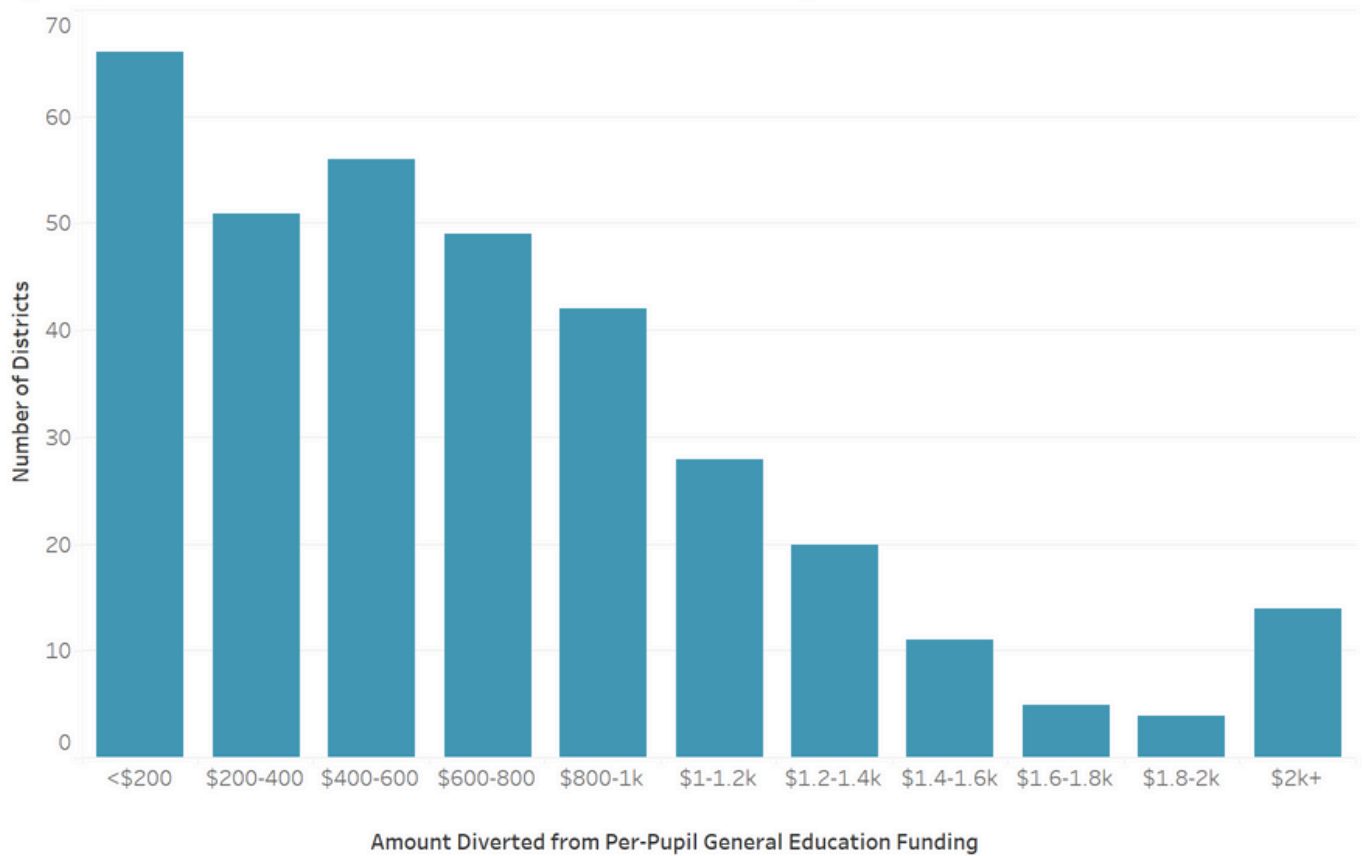
We estimate how much funding districts would divert from general education to cover the costs of unfunded special education students under the census funding method. In other

words, how much less per-pupil funding is available for the general education program when districts must fill in the funding gaps for unfunded special education students?

The per-pupil amount underfunded districts must divert from general education to fill their special education funding gap varies greatly. [Figure 4](#) shows this distribution: about half of the 358 underfunded districts must shift more than \$600 per pupil from general education to cover unfunded special education students. This diversion is compounded in districts that are also not receiving full formula funding. These districts, which often serve high concentrations of low-income and minority students, are doubly harmed as they already lack sufficient resources to provide students with a constitutionally required "thorough and efficient" education.

⁸ Diversion from the general education program to support special education costs can occur in any district, regardless of classification rate. If the district's actual expenditure for special education services exceeds the average excess cost provided under the census method, districts would necessarily divert funds to cover these expenses. However, limitations in publicly reported expenditure data prevent us from analyzing these effects.

Figure 4. Diversion from General Education to Cover Unfunded Special Education Students



Millville School District in Cumberland County is one example. In 2022-23, the district was both underfunded according to the SFRA formula and did not receive adequate special education funding. The district received only 87% of the state and local revenue required by the funding formula and was funded for about two-thirds of its actual special education student enrollment. This left the district with a **gap of over \$6 million** for unfunded special education students on top of a **formula gap of \$12.2 million**. The district, which enrolled 4,543 students and spent approximately \$2,650 per pupil below what the formula required, would have had to reduce spending on general education by nearly \$1,650 per pupil to maintain special education spending

at the state average. In effect, use of the census method means that Millville may have spent as much as \$4,300 below what the SFRA formula requires for its general education program.

Read ELC reports, [Spending Targets Under the School Funding Reform Act](#) and [The Color of Opportunity](#), to learn more about how the SFRA operates and how formula underfunding disproportionately impacts Black and Latino students.

Special Education Funding Systems Across the Country

States across the country use a variety of funding mechanisms for their special education programs, with 22 states using a hybrid model that combines two or more methods. New Jersey is one of thirteen states, including Alabama, Massachusetts, California, Illinois, and Arizona, that uses a census-based model alone or as part of a hybrid system for K-12 special education funding.

Some states, such as Michigan and Nebraska, reimburse districts for all or some of their special education expenditures. Others, such as Delaware and Virginia, provide resource-based allocations, which means that districts receive a minimum base amount of resources, usually linked to staff-to-student ratios. The majority of other states fund their special education systems through a weighted model that assigns dollar amounts to certain student characteristics or needs. Many states also provide additional funding for high-cost special education services, similar to New Jersey's extraordinary aid program.

Funding Mechanism	# of States
Hybrid	22
Multiple weights	16
Reimbursement	4
Resource-based	3
Flat weight	3
High-cost services	2
Census-based	1

Source: Education Commission of the States' 50 State Comparison, 2021

See the Education Commission of the States' [50-State Comparison](#) for a comprehensive overview of K-12 special education funding across the United States and in the District of Columbia.





Conclusion

This report finds that census-based special education funding has led to enormous variations in the resources allocated to school districts for classified students. New Jersey districts with classification rates higher than the statewide average were underfunded by approximately \$378 million in 2022-23. While special education funding gaps vary greatly among districts, this report makes clear that New Jersey policymakers must take steps to modify and improve the state's special education funding system.

In their 2011 report, Augenblick, Palaich and Associates (APA) found clear differences in the percentages and types of students served in districts across the state. They noted that certain disability categories have higher costs than others and found that the distribution of students by disability category is not consistent across districts. APA recommended increased data collection and further analysis of where students are being served and funded, the costs of serving different disability types, and special education enrollment patterns and costs across districts. The NJDOE never

followed through on APA's recommendations, and our analysis further demonstrates the need for additional study of New Jersey's special education funding system.

When the New Jersey Supreme Court signed off on the constitutionality of the new school funding formula in 2009, the Justices were clear that their approval was conditioned on the State's commitment "diligently to review the formula after its initial years of implementation and adjust the formula as necessary."⁹ The State's lack of action to address known issues with the census-based funding model must be rectified immediately.

ELC previously recommended that the NJDOE consult with school finance experts as they prepare the FY2026 Educational Adequacy Report (EAR), the statutorily required three-year review of the formula's costs and components.¹⁰ Although altering the special education funding method is outside the scope of the EAR, the NJDOE should include discussions of and improvements to special education funding in a broader analysis of the

⁹ *Abbott v. Burke*, 199 N.J. 140, 146 (2009).

¹⁰ See the first report in this series, [A Roadmap for Improving New Jersey's School Funding Formula: The FY2026 Educational Adequacy Report](#).

formula. Recommended improvements can then be enacted through separate legislation. ELC calls for the Legislature to take the following immediate steps:

- Include an appropriation in the FY2025 budget for the NJDOE to conduct a comprehensive review of the SFRA, including an analysis of the special education funding method;
- Require the review to include community and stakeholder engagement and consultation with school finance researchers with expertise in special education funding;
- Increase the Extraordinary Special Education Aid allocation in the FY2025 budget. Extraordinary Aid has been flat funded since FY2022, meaning that each year a smaller fraction of school districts' eligible costs are reimbursed. This creates greater pressure on school districts to cover these costs through other revenue sources.

A fair method of allocating special education funding is a crucial element of an adequate and equitable school funding formula. The Legislature and the Commissioner of Education must take immediate steps to remedy the major issues created by census funding for special education so that all districts have access to the resources they need.

