AMSD

Association of Metropolitan School Districts

Special Education

AMSD Position

The Governor and Legislators should follow the recommendations of the 2026 Blue Ribbon Commission on Special Education including repealing the $250 million contingent cut to special education cross-subsidy reduction aid and maintaining funding for Alternative Delivery of Specialized Instructional Services (ADSIS) and transportation of homeless and highly mobile students.

- Special education services provided by Minnesota's public schools are critical to the education and quality of life of students with special needs.
- Reductions in children's health services provided by the state and counties have created a system where public schools are the frontline of children's mental health services.
- A growing number of students are coming to school with increasingly complex special education disabilities and extraordinary mental health needs.
- State special education funding and policy must ensure a safe learning environment for both students and staff.

Background

The federal government mandated special education in 1975 when Congress required states to provide a free and appropriate education in the least restrictive environment to all children with disabilities from 3 to 21. While the 1975 law authorized federal funding of "up to 40 percent of the national average per pupil expenditure for each special education student," the federal government has never come close to providing that level of funding. The Special Education Expenditure Project (SEEP) estimates it costs 1.9 times more to educate the average special education student than the average student without special needs.[1]

In March of 2013, the Minnesota Office of the Legislative Auditor (OLA) released a comprehensive evaluation report on special education.[2] Among the key findings were that many school districts are diverting state general education aid and referendum revenue to pay for mandated special education. The amount districts divert from their general education funds to pay for the shortfalls created when state and federal governments do not fully fund these mandated services is often referred to as a "special education cross-subsidy."[3] The 2013 Legislature made some progress in addressing the OLA findings by approving $40 million for special education cross subsidy aid and requiring the serving school district to pay 10 percent of the costs for the non-resident special education students they serve.

In 2019, the Legislature took further action by adding a new component to the special education formula — cross-subsidy reduction aid — equal to 2.6 percent of unreimbursed costs for FY20 and 6.43 percent of the cross-subsidy for FY21 and later. The special education aid cap was phased out and eliminated in FY21 and later. It also reduced the portion of unreimbursed special education costs the serving district can bill back to the resident district from 90 percent to 85 percent in FY20 and 80 percent in FY21 and later.

The 2023 Legislature made significant progress toward addressing the overwhelming special education shortfalls faced by school districts. The 2023 Education Bill increased special education cross subsidy reduction aid from 6.43 percent to 44 percent for FY24, FY25, and FY26. In FY27, cross-subsidy reduction aid will increase to 50 percent.

MDE is required to annually submit a cross-subsidy report to the legislative committees having jurisdiction over K-12 Education showing the amount each district is subsidizing special education costs with general education revenue.[4] The recently released FY25 Special Education Cross-Subsidies report shows the impact of the investments included in the 2023 education bill.

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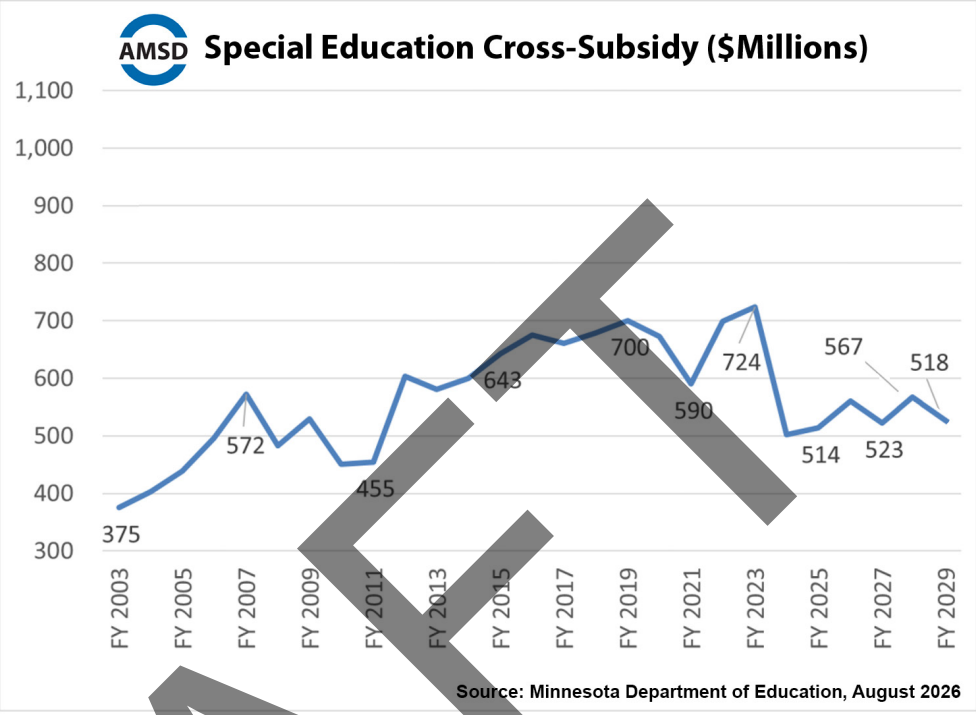

Source: Minnesota Department of Education, August 2026

As the graph shows, following the passage of the 2023 education bill, the FY24 cross-subsidy declined from $724.4 million to $502.6 million. The cross-subsidy increased, however, by $11.2 million to $513.7 million in FY25. MDE projects the cross-subsidy to decline in FY27 due to the phased-in increase in cross-subsidy reduction aid approved in the 2023 session before rising again in FY28 to $568.6 million. However, **that figure does not include the contingent $250 million reduction to cross-subsidy reduction aid that will take effect in the 28-29 biennium unless the Governor and Legislators act.**

The FY25 cross-subsidy for AMSD districts totaled nearly $390 million — more than three quarters of the statewide cross-subsidy. Reasons for the high costs vary by district but a significant challenge for AMSD districts comes with the higher costs of providing services in metropolitan areas — particularly higher labor costs. The 2025 report notes that per student (WADM) cross-subsidies range from more than $1,241 in Minneapolis and Saint Paul to $729 for inner ring suburbs to $669 for outer ring suburbs to $554 for large non-metro districts. Those amounts are significantly higher than for districts in other areas of the state.[4]

Further complicating the challenge for school districts is the issue of "tuition billing," whereby a serving school district or charter school is allowed to bill back significant portions of special education costs to a student's resident school district. In FY25-26, AMSD districts spent nearly $79 million of their general education revenue on special education costs for resident students attending charter schools.

While the recent investments to address the special education cross-subsidy during the 2023 legislative session provided temporary financial relief for school districts, the transportation cuts and potential $250 million cut to cross-subsidy aid included in the 2025 Education bill could greatly exacerbate school district budget challenges.

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Resources

[1] Special Education Expenditure Project, "What Are We Spending on Special Education Services in the United States, 1999-2000?" June 2004, Report funded by the United States Department of Education.

[2] Minnesota Office of the Legislative Auditor, Evaluation Report: Special Education, available at: http://www.auditor.leg.state.mn.us/ped/pedrep/sped.pdf

[3] The special education cross-subsidy refers to the amount of general education revenue that a school district uses to pay for its special education program. In other words, the cross-subsidization estimate describes how much additional revenue a district needs to fund special education at the mandated level and still maintain funding for regular education programs. AMSD uses the adjusted net cross subsidy in its calculations.

[4] Minnesota Department of Education, updated numbers from "Special Education Cross-Subsidies Fiscal Year 2025: Report to the Legislature." Available: https://www.amsd.org/shared-files/14687/