Association of Metropolitan School Districts

2 Pine Tree Drive, Suite 380, Arden Hills, MN 55112 • 612-430-7750 • www.amsd.org

Position on Special Education

The Governor and Legislators should repeal the $250 million contingent cut to special education cross-subsidy reduction aid enacted in 2025 and increase state funding for special education to reduce shortfalls and ensure that all students have the resources and opportunities necessary to achieve state and federal standards.

AMSD BELIEVES

- 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.

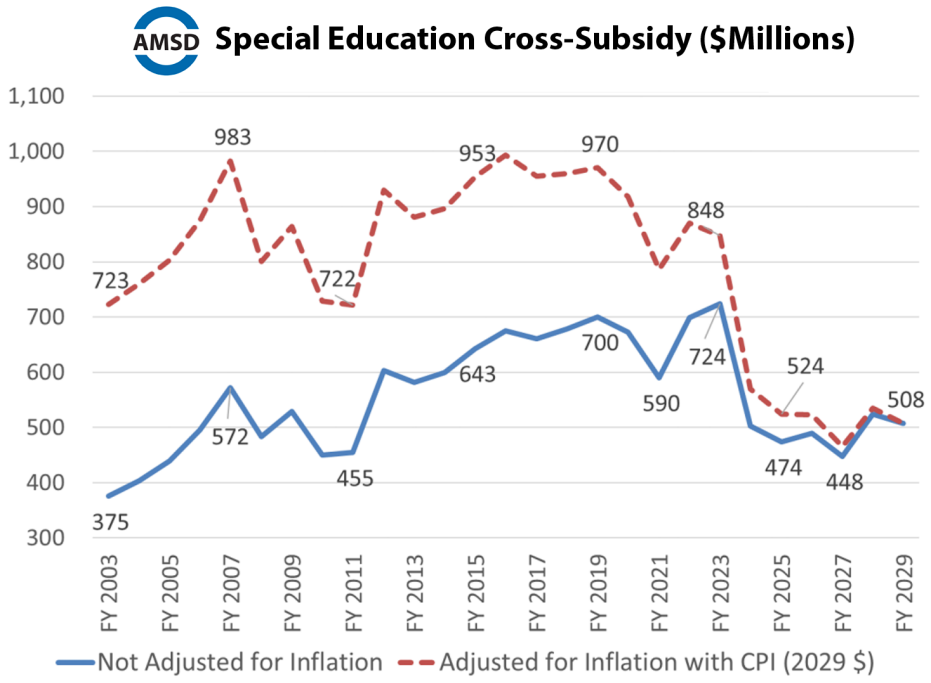
In March of 2013, the Minnesota Office of the Legislative Auditor (OLA) released a comprehensive evaluation report on special education. Among the key findings were that many school districts are diverting state general education aid and referendum revenue to pay for mandated special education. The amount 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." 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.

AMSD Position on Special Education

Figure 1



Source: Minnesota Department of Education, July 2025

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. The recently released FY24 Special Education Cross-Subsidies report shows the impact of the investments included in the 2023 education bill.

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. MDE projects it will decrease to $474.1 million in FY25, increase to nearly $490 million in FY26, and then drop to $448.1 million in FY27 when cross-subsidy reduction aid increases to 50 percent.

However, the updated report does not reflect the 2025 education bill which lowered the reimbursement of special education pupil transportation expenditures from 100 percent of eligible costs to 95 percent of eligible costs for fiscal year 2026 and 90 percent of the eligible costs for fiscal years 2027 and later. The bill also created a Blue-Ribbon Commission on Special Education charged with identifying $250 million in cost savings in the 2028-29 biennium. If the commission fails to identify $250 million in savings, the cross-subsidy reimbursement percentage will be reduced proportionately to reach the $250 million target. The bill also lowered the reimbursement of special education pupil transportation expenditures from 100 percent of eligible costs to 95 percent of eligible costs for fiscal year 2026 and to 90 percent of eligible costs for fiscal years 2027 and later.

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. Insufficient special education funding has a tremendous financial impact on AMSD member school districts, ranging from $628 per pupil in outer-ring metro suburbs to more than $1,240 per pupil in Minneapolis and Saint Paul. In comparison, the average per pupil cross-subsidy for charter schools is just $255.[4] In FY24-25, AMSD districts spent more than $76.4 million of their general education revenue on special education costs for resident students attending charter schools.

The recent investments to address the special education cross-subsidy provided some financial relief for school districts. At the same time, the potential reduction in cross-subsidy aid included in the 2025 Education bill could result in a significant increase in cross-subsidies.

Endnotes

[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 2024: Report to the Legislature."