Fiscal Compliance for Special Education:

Excess Cost Calculation

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Clarifications added to slide 9; added slides 41-42

Learning Objectives

• Understand the Excess Cost Requirement

• Learn how to perform the Excess Cost calculation

Excess Cost Requirement

34 CFR §300.16 Definition;
34 CFR §300.202(b) Requirement;
Appendix A to Part 300 Excess Costs Calculation
Excess Cost Requirement

• The Excess Cost requirement prevents an LEA from using funds provided under IDEA-B to pay for all the costs directly attributable to the education of a child with a disability

• IDEA-B funds must be used to supplement state, local, and other federal funds and not to supplant them

“Because a student with disabilities is a student entitled to an education first, the concept of excess costs establishes...that students with disabilities receive educational support in the same way and to the same extent as non-disabled students and that IDEA-B funds only pay for the excess costs of educating students with disabilities”

• Excess Costs are those costs over and above what the LEA spends on average for all students

Excess Cost Requirement

• An LEA meets the excess cost requirement if it has spent at least a minimum average amount for the education of its children with disabilities before IDEA-B funds are used

Although the regulations state “before IDEA-B funds are used”, TEA provides guidance:

“For practical purposes, IDEA-B funds may be spent simultaneously with state, local, and other federal funds. However, by the end of the fiscal year, your organization must have spent the minimum average amount per student with funds other than IDEA-B”

Who Must Perform Excess Cost Calculation?

• All LEAs (ISDs and Open-Enrollment Charter Schools) that receive IDEA-B funds

• Including those LEAs that are members of a special education shared services arrangement (SSA) whose Fiscal Agent (FA) receives the IDEA-B funds on behalf of their members

• Individual members of a special education SSA are responsible for their own Excess Cost calculations and for maintaining documentation of compliance

  • Members of SSAs must include in the Excess Cost calculation their own expenditures and any expenditures made on their behalf by their Fiscal Agent

  • Members of SSAs should request from their Fiscal Agent the actual amount (from each applicable fund source) expended on behalf of the member
Excess Cost Definition

Those [current year] costs for students with disabilities paid from IDEA-B funds that are in excess of the average annual per-student expenditure (APPE)* in an LEA during the preceding school year for an elementary school or secondary school student.

*APPE is based on all students

Excess Cost Calculation

The Excess Cost amount is computed after totaling ALL expenditures for all students and then deducting the following:

- IDEA-B expenditures
- Title I Part A expenditures
- Title III Parts A & B expenditures
- Any State or local funds expended for the programs listed above
- Any expenditures for capital outlay or debt service

Followed by a calculation to determine a per-pupil amount to derive an APPE for the LEA

Remember:
Excess Costs requirement looks at expenditures, not revenue

Excess Cost Calculation

- The Excess Cost calculation must include all expenditures (not just those identified as instructional expenditures) from all fund sources (federal, state, local) of the LEA

  - That includes expenditures coded to PIC 99 and expenditures coded to ORG 999, per guidance from TEA to ESC-20 in email dated May 2, 2018
  - All PICs, all Fund Codes [All means all!]
  - Actual expenditures [not budget; not revenue]

- Expenditures for the Excess Cost calculation are based on expenditures that occurred during the LEA's previous fiscal year

  - LEAs should calculate the Excess Costs using their own particular system of recording fiscal year data, according to local procedures and fiscal calendar

TEA's Excess Costs Guidance Handbook page 2
Excess Cost Calculation Timeline

Since final, audited financial data for the previous school year are not available at the time LEAs submit their Special Education consolidated grant application, the LEA certifies in the “Program Specific Guidelines and Provisions and Assurances” section of the SC5003 Formula Grants Consolidated Schedule that the Excess Cost calculation will be performed as soon as possible.

Excess Cost Preliminary and Final Calculations

• Perform both a Preliminary and a Final calculation, as data are available:
  • Perform a Preliminary calculation using estimated expenditure data from your unaudited, detailed general ledger
  • Perform a Final calculation based on actual expenditures after your audited annual financial report has been finalized

• The Excess Cost Calculation is not submitted to TEA, but must be maintained for audit and monitoring purposes

TEA's Excess Costs Guidance Handbook page 5

<table>
<thead>
<tr>
<th>Spending Requirement for Current School Year:</th>
<th>Based on Expenditures from Prior Year:</th>
<th>Based on Student Count (All Students) from Prior Year:</th>
<th>Based on Students with Disabilities Child Count Current Year:</th>
<th>Perform Preliminary Calculation (Based on Estimated Prior Year Expenditures from your unaudited general ledger)</th>
<th>Perform Final Calculation (Based on Actual Prior Year Expenditures) after Mid-Year TDS/PEIMS reports available in March or later than:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-2018</td>
<td>2016-2017</td>
<td>Fall 2016</td>
<td>Fall 2017</td>
<td>Fall/Winter 2017</td>
<td>Fall/Winter 2018</td>
</tr>
<tr>
<td>2018-2019</td>
<td>2017-2018</td>
<td>Fall 2017</td>
<td>Fall 2018</td>
<td>Fall/Winter 2018</td>
<td>Fall/Winter 2018</td>
</tr>
</tbody>
</table>

*After close of prior fiscal year, and after all final expenditures from all programs have been made, and you have child count data for the current year

**Unofficial timeline; This is just an example

Recommendation: In written local policy and procedures, include a timeline, based on local determination, for performing Preliminary and Final Excess Cost calculation
Excess Cost Calculation: Elementary vs Secondary

Federal regulations require the LEA to compute the APPE separately for elementary and secondary schools:

- LEAs may not compute the minimum average amount it must spend on the education of children with disabilities based on a combination of the enrollments in its elementary and secondary schools.

- Follow local policy for classifying grade levels as elementary and secondary.

- For expenditures that cannot be attributed directly to a school level, such as general operations or district level (principal positions), allocate these amounts to elementary and secondary levels based on local written policies and procedures.

- For example, prorate expenditures for district level general operations based on the ratio of elementary students and secondary students.

Illustration for Excess Cost Calculation – Step 1
from TEA's Excess Costs Guidance Handbook

Using previous year expenditure data:
1. Determine total expenditures from all sources: local, state, and federal (including IDEA, Part B, Title I, and any other federal funds expended by the LEA). Exclude capital outlay and debt service (see Appendix 1 for a list of codes assigned to these expenditures).

Previous Year School Expenditures | Elementary | Secondary
--- | --- | ---
State and local tax funds | $8,219,000 | $7,490,000
Federal funds (including IDEA) | $6,600,000 | $5,970,000
Total expenditures from all sources (previous year) | $15,819,000 | $13,460,000
- exclude Capital Outlay | | |
- exclude Debt Service | | |
Total adjusted expenditures (previous year) | $15,819,000 | $13,460,000

Illustration for Excess Cost Calculation – Step 2
from TEA's Excess Costs Guidance Handbook

2. From the amount determined in Step 1, subtract the previous year expenditures identified below (see Appendix 1 for a list of codes assigned to these expenditures). These are funds actually spent, not funds received and carried over to the subsequent year.

Previous Year School Expenditures | Elementary | Secondary
--- | --- | ---
- IDEA, Part B | ($420,000) | ($130,000)
- Elementary and Secondary Education Act (ESEA), Title I, Part A | ($320,000) | ($220,000)
- ESEA Title II, Parts A and B | ($350,000) | ($340,000)
- State and local funds for students with disabilities | ($320,000) | ($300,000)
- State and local funds for programs under ESEA, Title I, Parts A and B | ($150,000) | ($80,000)

Final adjusted expenditures (previous year) | $5,665,000 | $7,242,000
### Illustration for Excess Cost Calculation – Step 3

#### TEA’s Excess Costs Guidance Handbook

3. Divide the final adjusted expenditures calculated in Step 3 by the previous year number of enrolled students (including students with disabilities) from PEMRS October Snapshot. This yields the previous year annual average per pupil expenditure (APPEx).

<table>
<thead>
<tr>
<th>Previous Year APPEx</th>
<th>Elementary</th>
<th>Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final adjusted expenditures (previous year)</td>
<td>$5,600,000</td>
<td>$7,262,000</td>
</tr>
<tr>
<td>Number of all students enrolled, including students with disabilities (previous year PEMRS October Snapshot)</td>
<td>660</td>
<td>620</td>
</tr>
<tr>
<td>APPEx (previous year)</td>
<td>$7,000</td>
<td>$12,126</td>
</tr>
</tbody>
</table>

Obtain the student enrollment for all elementary and secondary students from the previous year PEMRS October Snapshot date. The LEA may round up or down without cents after dividing by the number of students.

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### Illustration for Excess Cost Calculation – Step 4

#### TEA’s Excess Costs Guidance Handbook

4. Multiply the previous year APPEx calculated in Step 3 by the current number of students with disabilities. The current year is the school year to which the excess costs apply. The amount calculated in Step 4 is the total aggregate amount of non-IDEA-B funds, at minimum, an LEA must spend on the education of students with disabilities. IDEA-B funds are only for the excess costs above this minimum amount.

<table>
<thead>
<tr>
<th>Current Year Amount</th>
<th>Elementary</th>
<th>Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPEx (previous year)</td>
<td>$7,000</td>
<td>$12,126</td>
</tr>
<tr>
<td>Number of students with disabilities (current year PEMRS October Snapshot)</td>
<td>660</td>
<td>620</td>
</tr>
<tr>
<td>Minimum annual aggregate expenditures to be spent on the education of students with disabilities</td>
<td>$311,000</td>
<td>$546,120</td>
</tr>
</tbody>
</table>

In this example, the LEA must spend an aggregate of $311,000 for elementary and $546,120 for secondary levels for the education of students with disabilities from fund sources that are not IDEA-B funds.

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Chart obtained from: TEA’s Excess Costs Guidance Handbook page 6 (Comments inserted by ESC-20)

Appendix 1 – Select Fund, Object, and Program Ident Codes for Excess Costs Calculation

- IDEA-B Formula Deaf (217/246) and IDEA-B Preschool Deaf (218/247) are no longer separate funds.
- Instead, they are inclusive with IDEA-B Discretionary Deaf Fund Codes 226/315.
State and local funds for students with disabilities could also include:

- Fund 435: State Deaf funds – Fiscal Agent of RDSPD (Regional Day School Program for the Deaf) expenditures on behalf of members
- Fund 437: Fiscal Agent of special education shared services arrangement (SSA) expenditures on behalf of members

And Fund 435 if a member of RDSPD;
And Fund 437 if a member of a special education SSA

Excess Cost Calculation FAQ

The following Excess Cost Calculation FAQs were posted to TEA’s website in 2013, but the webpage/content no longer exists. However, the information can still be beneficial toward understanding the mechanics of how to perform the Excess Cost calculation.

The content is adapted for the purposes of this presentation.

Excess Cost Calculation FAQ: Expenditure Data

Which financial reports should be used for the Excess Cost Calculation?
Allocated or Unallocated? Audited or Unaudited?

Because of the timing of this assessment (refer to slides on Excess Cost Timeline), the LEA should use financial information available from its unaudited, unallocated general ledger for the Preliminary calculation.

Final determination of the LEA’s compliance may be determined by using the Actual Financial Data (ACTUAL) table [unallocated, audited data] (TSDS PEIMS Mid-year Collection PDM2-100-016)

Adaptation of TEA’s 2013 Excess Cost FAQ that is no longer accessible on the website; ESC-20 added comments in brackets.
Excess Cost Calculation FAQ: Elementary vs Secondary

How should LEAs estimate/prorate between elementary and secondary if the financial report does not do this?

- The annual financial and compliance report [AFR] and the [TSDS] PEIMS [Mid-Year Collection Actual Compliance Report (PDM2-101-002)] are not appropriate for this analysis since the reports do not include sufficient detail.

- The most appropriate sources are the [LEA’s detailed general ledger and Actual Financial Data (ACTUAL) table (TSDS PEIMS Mid-year Collection PDM2-100-016)].

Excess Cost Calculation FAQ: Elementary vs Secondary

Which method would be recommended to sort out only campus-based costs?

- The use of trial balance data such as that represented in the Actual Financial Data (ACTUAL) table [TSDS PEIMS Mid-year Collection PDM2-100-016] may be used to identify costs pertaining to elementary and secondary campuses.

Excess Cost Calculation FAQ: Elementary vs Secondary

Is there one report LEAs can run to get all information needed: Elementary/Secondary split, PIC 99 and Organization Code 999?

- No. There is not one report that can be used.

- Instead, the LEA should use financial data in a trial balance format from its financial accounting records (i.e., detailed general ledger) AND the Actual Financial Data (ACTUAL) table [TSDS PEIMS Mid-year Collection PDM2-100-016].

Adaptation of TEA’s 2013 Excess Cost FAQ that is no longer accessible on the website; ESC-20 added emphasis and comments in brackets.
The LEA can identify campus level expenditures by Org Codes assigned to elementary and secondary campuses.

Excess Cost Calculation FAQ: Fund Code 240

Should Fund Code 240 be used in the calculation?

Yes. Commodities (Fund 240 National School Breakfast and Lunch Program) should be used in the calculation.

Excess Cost Questions to USDE

The following Excess Cost Calculation questions and responses are derived from letters to USDE’s Office of Special Education and Rehabilitative Services (OSEP).

The content is adapted for the purposes of this presentation.
Excess Cost Questions to USDE: Expenditures

Does the reference to “total amount of expenditures” mean that an LEA includes the total amount of expenditures for the education [instructional expenditures] of its elementary [and secondary school students], or literally, the total amount of all expenditures attributable to its elementary [and secondary school students]?

➢ The determination of expenditures that can be excluded is based on the language of 34 CFR §300.16 and Appendix A [which states the exclusion of capital outlay and debt service], rather than whether they are “educational” expenditures.

Excess Cost Questions to USDE: Expenditures

➢ Can a state include instructional-related expenditures and transportation expenditures, but exclude expenditures related to school food programs in the excess cost calculation?

➢ The reference in 34 CFR §300.16 and Appendix A is to total expenditures of the LEA for elementary school students and total expenditures for secondary school students, not total expenditures for the education [instructional expenditures] of elementary school students and total expenditures for the education [instructional expenditures] of secondary school students.

➢ The only possible deductions are those specified in 34 CFR §300.16 and Appendix A [which states the exclusion of capital outlay and debt service].

Excess Cost Questions to USDE: Elementary vs Secondary

➢ The LEA may not necessarily maintain and track expenditure data separately for elementary and secondary school students. Can an LEA apply the enrollment numbers of students...to the relevant combined expenditure data on a proportional basis?

➢ 34 CFR §300.16 requires that the minimum average amount be computed separately for children with disabilities in elementary schools and secondary schools. There are distinct and separate costs associated with these levels that would make the computation you describe inaccurate and potentially misleading.

For example, school programs at the secondary level typically include such things as vocational education programs, athletic programs, music programs including marching bands, etc., that do not apply to elementary schools. The costs of the separate programs are generally not comparable and therefore, the costs must be computed separately.
Excess Cost Questions to USDE: Minimum Amount Per Student with Disabilities from Non-IDEA Funds

...Can an allocable portion of regular education costs (such as regular education teacher salaries for classes where children with disabilities are mainstreamed, or regular education transportation costs for children with disabilities who use such transportation) be applied, if they can reasonably be attributed to the education of children with disabilities?

 Yes.

Adaptation of Letter to Plagato-Neubauer, OSEP, 4/8/08

Excess Cost Questions to USDE: Minimum Amount Per Student with Disabilities from Non-IDEA Funds

Additional response to similar question...

 Because the education of a child with a disability may include regular education, as well as special education and related services, when determining if the LEA has spent the required minimum amount for the education of its children with disabilities, that amount can include expenditures for regular education (such as regular education teacher salaries for classes where children with disabilities are educated with children who are nondisabled), if those costs can be reasonably attributed to the education of children with disabilities.

Adaptation of Letter to Kennedy, OSEP, 9/5/09

Excess Cost Questions to USDE: Relationship to SNS and MOE

...What is the relationship between the excess cost requirements, supplement not supplant, and maintenance of effort?

 The excess cost and supplement, not supplant requirements are different and an LEA must meet both requirements... An LEA meets the excess cost requirement if it has spent at least a minimum average amount for the education of its children with disabilities before funds under IDEA-B are used.

With regard to education for children with disabilities, the nonsupplanting requirement is met by meeting the maintenance of effort requirements... The fluctuation of the average per pupil amounts used to determine excess cost would not be a factor in determining whether an LEA has maintained fiscal effort.

Adaptation of Letter to Kennedy, OSEP, 10/31/08

ESC-20 added emphasis
Action Steps for 2019-2020

• Ensure the Final Excess Cost Calculation for 2018-2019 (based on 2017-2018 expenditures) was completed by the time the 2019-2020 Special Education Consolidated Grant application is submitted.


• Ensure you have written policy and procedures for performing the Excess Cost Calculation.

• Grade levels classified as elementary and secondary should follow local policy and be consistent with other reporting to TEA (TEA's Excess Cost Guidance Handbook, page 2).

Activity: Excess Cost Calculation

Access the Excess Calculator Tool from TEA's webpage.

Use sample data for the activity.

Sample Data for 2018-2019 FY19 Excess Cost Calculation Activity

2017-2018 Expenditures for Elementary Grade Level:

- All elementary grade level expenditures paid from state and local funds $6,500,000
- All elementary grade level expenditures paid from federal funds $600,000
- All elementary grade level expenditures for capital outlay $35,000
- All elementary grade level expenditures for debt $25,000
- All elementary grade level expenditures paid from IDEA-B funds $200,000
- All elementary grade level expenditures paid from Title IX, Parts A & B $50,000
- All elementary grade level expenditures for children with disabilities paid from state and local funds $350,000
- All elementary grade level expenditures for programs under Title I, Part A and Title III, Parts A & B paid from state and local funds $150,000

Enrollment Numbers for Elementary Students:

- All elementary students (including students with disabilities) enrolled in previous year (fall 2017 snapshot) = 800
- Elementary students with disabilities enrolled in current year (fall 2018 snapshot) = 100
Sample Data for 2018-2019 FY19 Excess Cost Calculation Activity

2017-2018 Expenditures for Secondary Grade Level:
- All secondary grade level expenditures paid from state and local funds $7,400,000
- All secondary grade level expenditures paid from federal funds $750,000
- All secondary grade level expenditures for capital outlay $30,000
- All secondary grade level expenditures for debt $15,000
- All secondary grade level expenditures paid from IDEA-B funds $130,000
- All secondary grade level expenditures paid from Title I, Part A funds $220,000
- All secondary grade level expenditures for programs under Title I, Part A and Title I, Parts A & B $43,000
- All secondary grade level expenditures for capital outlay paid from state and local funds $300,000
- All secondary grade level expenditures for programs under Title I, Part A and Title I, Parts A & B paid from state and local funds $86,000

Enrollment Numbers for Secondary Students:
- All secondary students (including students with disabilities) enrolled in previous year (Fall 2017 snapshot) = 600
- Secondary students with disabilities enrolled in current year (Fall 2018 snapshot) = 75
Activity: Excess Cost Discussion

• Now that you calculated the minimum amount that must be spent in the aggregate for students with disabilities from non-IDEA funds, what’s next?

• How do you determine you spent the minimum amount?

Determining Compliance

• TEA's Excess Cost Guidance Handbook illustrates the flow of compliance or non-compliance for an elementary level within a period of four school years.

Example:
• The amount that must be spent in 2013-2014 is based on audited expenditures from 2012-2013.
• The amount that must be spent in 2014-2015 is based on audited expenditures from 2013-2014.
• When the calculation is performed for 2014-2015, you can compare what was actually spent in 2013-2014 to what should have been spent in 2013-2014.

TEA's Excess Cost Guidance Handbook, page 4
Excess Cost Calculation Resources

- USDE's Appendix A to Part 300 provides instructions for computing Excess Costs.
- TEA provides guidance and a calculation tool on their Excess Costs webpage: https://tea.texas.gov/Finance_and_Grants/Grants/Federal_Fiscal_Compliance_and_Reporting/IDEA_Fiscal_Compliance/Excess_Cost/
- ESC-20 Special Education Funding & Compliance webpage: https://www.esc20.net/page/ci_se.FundingResources
  - Select toggle titled “Excess Cost Requirement”

Questions

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