

**Special Education Cost Model Task Force  
Minutes of Meeting  
May 20, 2019**

**Call to Order**

Pursuant to notice filed with the Secretary of the State, the Special Education Cost Model Task Force met on Monday, May 20, 2019 in Meeting Room C, of the State Office Building, 450 Columbus Boulevard, Hartford, Connecticut.

Matthew Galligan, chair, called the meeting to order at 1:05 PM.

Task force members in attendance:

- Kathy Demsey, Chief Financial Officer, State Department of Education
- Stephen DiCenso, Consulting Actuary, Milliman, Inc.
- Liz Donohue, Designee of the Secretary of the Office of Policy and Management
- Matthew Galligan, Town Manager, South Windsor (Chair)
- Marie Salazar Glowski, Assistant Executive Director, Connecticut Association of Schools
- Patrice McCarthy, Deputy Director and General Counsel, Connecticut Association of Boards of Education
- Jan Perruccio, Superintendent, Old Saybrook Public Schools
- David Scata, Executive Director, Connecticut Council of Administrators of Special Education
- Jeyaraj Vadiveloo, Director, Goldenson Center for Actuarial Research, University of Connecticut
- Michael Grove, Assistant Superintendent for Operations and Finance, Meriden Public Schools

Task force members absent:

- John Flanders, Executive Director, Connecticut Parent Advocacy Center
- Jeffrey Kitching, Executive Director, EdAdvance

Others in attendance:

- Kyle Abercrombie, Connecticut School Finance Project
- Martha Deeds, Connecticut School Finance Project
- Nitza Diaz, SERC
- Leah Grenier, Office of Policy and Management
- Cara Hart, CREC
- Stephen Proffitt, SERC
- Katie Roy, Connecticut School Finance Project
- Amy Sestito, AON
- John Shule, AON
- Scott Sobel, AON
- CJ Strand, Connecticut School Finance Project

## **1. Review and acceptance April meeting minutes**

Ms. Salazar Glowski moved, and Ms. McCarthy seconded, a motion to accept the minutes of the April 8, 2019 meeting.

### VOTE ON MOTION

In favor: Demsey, DiCenso, Donohue, Galligan, Salazar Glowski, McCarthy, Perruccio, Scata, Vadiveloo

Opposed: 0

Abstained: 0

Absent: Flanders, Kitching, Grove

## **2. Presentation from SERC on the draft report regarding parent focus groups**

Stephen Proffitt and Nitza Diaz from the State Education Research Center (SERC) gave a presentation regarding the results from parent focus groups they facilitated on behalf of the task force regarding special education funding.

- Mr. Proffitt discussed the following primary themes, which are detailed in SERC's report: parents have limited knowledge of how special education is funded in Connecticut, and this finding is consistent across different demographic indicators; parents have a perception that special education funding is inequitably distributed across districts, which is a consistent finding among parents in both low-wealth and high-wealth districts; parents are not concerned with how much funding their child receives, as long as their child gets the services their child requires; parents are supportive of making changes to how special education is funded that would make costs for predictable for districts, and parents would like to learn more about special education funding.
- Dr. Vadiveloo asked for further insight into parents' perceptions of inequity, and Ms. Diaz stated that parents from wealthy towns and low-wealth towns both feel they have a lack of knowledge and resources regarding special education. Ms. Diaz noted that during the focus groups parents from different districts were able to discuss that they were experiencing similar challenges.
- Ms. Diaz stated that parents are interested in making sure their children's needs are met, not how much money their child is allocated.
- Ms. McCarthy asked if the 55 participants included both focus group participants and survey participants. Ms. Diaz responded that the number includes both groups. Ms. McCarthy commented that she was unsurprised that parents have limited knowledge about special education funding, as board of education members require education about this matter, and cautioned that the group not make decisions based on perceptions because sometimes perceptions can be inaccurate.
- Dr. Vadiveloo asked if parents are aware of their rights under IDEA. Mr. Proffitt stated that all parents whose children have an Individualized Education Plan (IEP) have been provided notice of their rights and that the State Department of Education (SDE) and SERC are working together to refine the IEP process. Ms. Diaz commented that the laws regarding special education are very complex, and that the

Planning and Placement Team (PPT) meeting is where parents have the opportunity to advocate for their child's education.

**3. Vote on acceptance of report from SERC**

Mr. Scata moved, and Ms. Demsey seconded a motion to accept the report from SERC.

VOTE ON MOTION

In favor: Demsey, DiCenso, Donohue, Galligan, Salazar Glowski, McCarthy, Perruccio, Scata, Vadiveloo, Grove

Opposed: 0

Abstained: 0

Absent: Flanders, Kitching

**4. Presentation from AON on the draft feasibility study regarding the “excess cost” actuarial model**

Ms. Sestito and Mr. Sobel from AON gave a presentation regarding the ‘excess cost’ model feasibility study.

- Ms. Sestito discussed the actuarial findings. AON finds the model feasible and fiscally solvent. Challenges related to using the excess cost student count as an exposure base because it is a very small number of students. Surplus and risk capital will be calculated differently if the model is implemented. In-year volatility is resolved under this model but between year volatility is reduced for some districts while increased for others.
- Dr. Vadiveloo asked what an alternative exposure base would be. Ms. Sestito responded that it could be total student enrollment rather than just excess cost enrollment.
- Ms. Perruccio asked why there is increased volatility in the excess cost model. Ms. Sestito responded that excess costs are more volatile than total special education costs and that using the excess cost student count as the exposure base, which is more volatile than the total special education student count or total district enrollment, increases volatility in the model.
- Ms. Sestito recommended that the co-op board monitor actual cost increases to ensure that assumptions remain accurate over time. Ms. Sestito discussed the modeled contribution refund, noting that a full refund increases contribution volatility, and recommended that overages be retained in full or in part, to be spent by the co-op on future special education services. Mr. Sobel added that limiting the refund would also increase investment returns.
- Dr. Vadiveloo commented that if the state government were to increase its contribution to excess costs by 10 percent, volatility will be reduced. Ms. Sestito agreed, and commented that in reality state contributions have decreased as a percent of total excess cost expenditures. Dr. Vadiveloo suggested that if the state increases its initial investment, this will also assist with volatility, and that the contribution does not need to be increased each year to garner a similar result. Mr. Scata commented that the state currently does not fully fund the excess cost grant.

- Ms. Sestito noted that the model is based on historical data, and that there is not an implicit risk load in the model. Dr. Vadiveloo stated that he felt this issue was mitigated by the reserve system.
- Ms. Sestito concluded that the model is actuarially feasible but that in her professional opinion there were two primary concerns she felt impact the model's viability for implementation: the model is very complicated and can give the impression of a "black box" calculation to the public; and due to the use of data protected by the SDE, it will be difficult to maintain or submit for peer review. Ms. Sestito discussed how using an exposure-based model based on total district enrollment would solve these issues, because that type of model would not use protected data.
- Mr. Scata asked why excess costs were less volatile in the basic cost model. Mr. Shule stated that because that model is based on larger pool, the excess costs are a smaller percentage of the whole.
- Ms. Demsey questioned whether all districts were prepared to provide administrative support for a cooperative entity, for data collection.
- Ms. Perruccio asked how costs would be smoothed when all of the students in the excess cost model were high-cost students. Ms. Sestito explained that much of the volatility can be smoothed through risk-pooling.
- Ms. Sestito suggested that it would be possible to create a 'pure' risk pool, removing the experience adjustment, which would further decrease volatility. Dr. Vadiveloo agreed that this would work, and noted that without the experience adjustment, each district's costs would increase the same amount year-over-year and that the amount is predictable.
- Mr. Scata commented that he believes that operationalizing an excess cost cooperative would be easier than total special education costs, and Ms. Glowski concurred.
- Ms. Donohue stated that by pooling the funds in a co-op, income is created that is not impacted by state budget concerns, and that the task force should also consider the volatility inherent to the legislative process, and pointed out that investment income is likely to be the only available increase in special education funding for the foreseeable future.
- Mr. DiCenso stated that he preferred the basic cost model, because the model is more stable, and there is no need for additional state funds to add predictability.
- Mr. Sobel reviewed the financial portion of the feasibility study for the excess cost model. Mr. Sobel estimated that the administrative load for the excess cost model would be approximately \$490,000, and the initial capitalization would be \$88 million, based on Connecticut's current captive insurance law. Mr. Galligan noted that enacting legislation could reduce this, if approved by the Connecticut Insurance Department (CID).
- Mr. Sobel noted that investment return assumptions were very conservative, at 1.5 percent. Ms. Perruccio asked if this rate included investment fees. Mr. Sobel stated that the low estimate should cover fees. Mr. Sobel pointed out how the modeled refund structure creates volatility between years, which could be solved by reducing the refund amounts.

- Mr. DiCenso noted that the basic cost model will garner more investment income than the excess cost model, because of higher assets.
- Dr. Vadiveloo suggested a hybrid model where basic costs are modeled with an experience adjustment and excess costs are modeled without it. Mr. DiCenso agreed that this type of model is common in captive insurance companies.
- Mr. Scata stated that ConnCASE directors have indicated a preference for the insuring excess cost only.
- Ms. Donohue noted that the cooperative would be able to negotiate with private providers for all districts, increasing bargaining power, which has the potential to reduce costs for the same services, which makes the pie bigger.
- Ms. Perruccio stated that she felt the excess cost model would be better received by her colleagues than the basic cost model and asked whether the entity would be subject to litigation. Mr. Galligan stated that the question should be directed to Mr. Beniwal of Morgan Lewis, the legal consultant.
- Ms. Demsey questioned whether investment income would impact maintenance of effort. Mr. Galligan stated that Mr. Sommaruga of Pullman & Comlely had indicated that it should not be a problem with the excess cost model. Task force members agreed to address these questions directly to the appropriate consultants.

**5. Vote on acceptance of feasibility study from AON**

Ms. McCarthy moved, and Ms. Demsey seconded a motion to accept the feasibility study from AON.

VOTE ON MOTION

In favor: Demsey, DiCenso, Donohue, Galligan, Salazar Glowski, McCarthy, Perruccio, Scata, Vadiveloo, Grove

Opposed: 0

Abstained: 0

Absent: Flanders, Kitching

**6. Discussion of outline of the task force’s final report**

Mr. Galligan presented a draft outline for the task force’s final report. Task force members discussed the outline and agreed to send Mr. Galligan comments before a draft report is written.

**7. Scheduling of next task force meeting**

It was agreed an online poll would be used to schedule the next task force meeting.

**8. Other Business**

None

**9. Adjournment**

At 2:58 PM, Ms. Donahue moved, and Ms. Perruccio seconded, a motion to adjourn the meeting.

VOTE ON MOTION

In favor: Demsey, DiCenso, Donohue, Galligan, Salazar Glowski, McCarthy, Perruccio, Scata, Vadivello, Grove

Opposed: 0

Abstained: 0

Absent: Flanders, Kitching