

Calculating Local Educational Agency Maintenance of Effort Adjustment and Freed-Up Funds

CIFR **practice guides** help state staff understand how to implement the fiscal reporting requirements of the Individuals with Disabilities Education Act (IDEA). These guides are not an official interpretation of IDEA by the Office of Special Education Programs (OSEP) or the U.S. Department of Education.

Introduction

Under 34 CFR §300.203, each local educational agency (LEA) receiving IDEA Part B funds must budget and spend at least the same amount of local—or state and local—funds for the education of children with disabilities on a year-to-year basis, known as its required maintenance of effort (MOE) level. In limited prescribed circumstances, an LEA may reduce its required MOE level when it receives an increased allocation of Part B Section 611 funds. The MOE reduction can be up to 50 percent of the amount of the increased allocation (see sidebar on page 2). CIFR’s *Quick Reference Guide on the Allocation of IDEA Part B Subgrants to Local Educational Agencies* describes the allocation process.

The regulation in 34 CFR §300.205 refers to such an LEA MOE reduction as an “*Adjustment to local fiscal efforts in certain fiscal years*” [emphasis added]. Accordingly, an LEA MOE reduction that is based on receiving an increase in the LEA’s Part B Section 611 allocation is often called an “LEA MOE adjustment.” This practice guide conforms to that convention by referring to any reduction in required MOE level resulting from an increased allocation as an “adjustment” to LEA MOE, or “LEA MOE adjustment.”

Understanding Freed-Up Funds

When an LEA reduces the amount of state or local funds that it must spend by using the LEA MOE adjustment, it “frees up” state or local funds that would have been spent on the education of children with disabilities. Those “freed-up funds,” as they are commonly referred to, are now available for other purposes. Under 34 CFR §300.205(b), the LEA must use an amount of state or local funds equal to the amount of the freed-up funds to carry out activities that could be supported with funds under the Elementary and Secondary Education Act (ESEA), regardless of whether the LEA has used ESEA funds for those activities (see sidebar on next page).

Suggested Uses

- Share with program and fiscal staff in state and local offices to support a common understanding and improve coordination.
- Review alongside your state’s LEA MOE exception policies and procedures to identify areas to update or clarify.
- Examine the use, calculation, and documentation of LEA MOE exceptions in your state for alignment with the examples provided.



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Relationship Between LEA MOE Exceptions and Adjustments

The LEA MOE adjustment is one of the flexibilities available under IDEA regulations allowing an LEA to reduce its required MOE level. An LEA may also reduce its required MOE level using five allowed “exceptions”:

- a. voluntary or for-cause departure of special education staff,
- b. decrease in enrollment of IDEA-eligible children,
- c. termination of an exceptionally costly program for a particular child, under certain circumstances,
- d. termination of costly expenditures for long-term purchases, and
- e. assumption of cost by the high-cost fund operated by the SEA under §300.704(c).

See 34 CFR §300.204.

LEA MOE exceptions are related to LEA MOE adjustments in that the exceptions can affect the amount by which an LEA may adjust its MOE level. However, the adjustment results in freed-up funds with requirements directing how those funds may be used (see **Examples of Activities Supported with Freed-Up Funds** later in this guide), but those requirements do not apply to any reduction resulting from exceptions.

Criteria for Using LEA MOE Adjustments

The criteria for eligibility for the adjustment are outlined in 34 CFR §300.205(a) and (c) and 34 CFR §300.646. When an LEA requests an MOE adjustment or submits a budget including such an adjustment, the state educational agency (SEA) must verify that the LEA meets the relevant criteria by confirming that

- » the LEA’s Section 611 federal allocation for the current fiscal year is greater than its allocation for the previous fiscal year;
- » the LEA “met requirements” in the SEA’s most recent determinations about the performance of LEAs under 34 CFR §300.608(a);
- » the SEA has not taken responsibility for providing free appropriate public education for eligible children with disabilities in the LEA or taken action against the LEA under Section 616 of IDEA; and
- » the LEA is not required to reserve the maximum 15 percent of its IDEA Part B allocation for use on comprehensive coordinated early intervening services (CCEIS) (which would be required under 34 CFR §300.646 if the LEA were identified with significant disproportionality).

Adjustment to local fiscal efforts in certain fiscal years

“...for any fiscal year for which the allocation received by an LEA under §300.705 exceeds the amount the LEA received for the previous fiscal year, the LEA may reduce the level of expenditures otherwise required by §300.203(b) by not more than 50 percent of the amount of that excess.”

34 CFR §300.205(a)

Use of amounts to carry out activities under the ESEA

“If an LEA exercises the authority under paragraph (a) of this section, the LEA must use an amount of local funds equal to the reduction in expenditures under paragraph (a) of this section to carry out activities that could be supported with funds under the ESEA regardless of whether the LEA is using funds under the ESEA for those activities.”

34 CFR §300.205(b)

Calculating the LEA MOE Adjustment Amount

If an LEA meets the above criteria for the adjustment, the LEA may reduce its level of effort by up to 50 percent of the difference between its Section 611 allocations for the year for which LEA MOE is being calculated and the immediate preceding year. Depending on the amount of state or local funds it has budgeted or spent, the exceptions that it has taken, and the amount of funds expended for voluntary coordinated early intervening services (CEIS) under 34 CFR §300.226, an LEA may not need or be able to reduce its level of effort by the total 50 percent reduction amount.

In the following example (Table 1), there are no exceptions and no funds set aside for CEIS, so the LEA may reduce the amount of state or local funds it budgets or spends on the education of children with disabilities by up to \$300,000—the full 50 percent.

Table 1. Sample LEA MOE Adjustment Calculation

Funding and amounts available for LEA MOE adjustment	Dollar amount
FFY 2021 IDEA Part B Section 611 allocation	\$800,000
FFY 2022 IDEA Part B Section 611 allocation	\$1,400,000
Increase in IDEA Part B Section 611 allocation (FFY 2022 amount – FFY 2021 amount)	\$600,000
Maximum amount by which the LEA may reduce its level of effort using the LEA MOE adjustment ($\$600,000 \times 50\%$)	\$300,000

If an LEA chooses to take advantage of both the LEA MOE adjustment and voluntary CEIS, the combined total of Part B funds used under both provisions cannot exceed the lesser of the maximum dollar amounts available for either CEIS (15 percent of Section 611 and Section 619 funds) or LEA MOE reduction (50 percent of the increase in Section 611 funds). In the following extension of the example (Table 2), the district voluntarily chooses to set aside CEIS funds, so the total amount available for the LEA MOE adjustment and voluntary CEIS is capped at \$285,000.

Table 2. Sample LEA MOE Adjustment Calculation with Voluntary CEIS

Funding and amounts available for LEA MOE adjustment and voluntary CEIS	Dollar amount
FFY 2021 IDEA Part B Section 611 allocation	\$800,000
FFY 2022 IDEA Part B Section 611 allocation	\$1,400,000
Increase in IDEA Part B Section 611 allocation (FFY 2022 amount – FFY 2021 amount)	\$600,000
Pre-capped amount by which the LEA may reduce its level of effort using the LEA MOE adjustment ($\$600,000 \times 50\%$)	\$300,000
FFY 2022 IDEA Part B 619 allocation	\$500,000
Pre-capped amount the LEA may reserve for voluntary CEIS ($[\$1,400,000 + \$500,000] \times 15\%$)	\$285,000
Amount available in total for LEA MOE adjustment and voluntary CEIS (lesser of the two amounts)	\$285,000

Calculating the Amount of Freed-Up Funds

When budgeting for the upcoming fiscal year, the LEA should estimate the amount it intends to take for the LEA MOE adjustment (up to 50 percent of the increase in the Part B Section 611 allocation) to ensure that it spends the correct amount of freed-up funds on allowable activities. At the time of budgeting, if the LEA believes it might be able to use the full reduction, it should plan to track expenditures for an amount equal to 50 percent of the Part B Section 611 allocation increase. However, the actual amount of funds freed up by the adjustment can only be calculated during the LEA MOE compliance test, based on actual expenditures.

To calculate the potential or actual amount of freed-up funds, the LEA (or SEA on behalf of the LEA) should do the following (see example in Table 3):

1. Determine the maximum amount by which the LEA may reduce its level of effort using the LEA MOE adjustment, as illustrated in Table 1.
2. Identify the actual expenditures (from local funds or state and local funds) in the comparison year (i.e., the last year the LEA met the compliance standard using the same method) that will be used for determining the LEA MOE compliance threshold for the upcoming fiscal year. When budgeting, the LEA may need to rely on estimated expenditures if final audited figures are not yet available for the comparison year.
3. Estimate or identify the amount (from local funds or state and local funds) of budgeted or actual expenditures in the year the LEA intends to take the LEA MOE adjustment.
4. Estimate or identify any anticipated or actual LEA MOE exceptions under 34 CFR §300.204.
5. Subtract the sum of the total budgeted or actual expenditures (step 3) and the anticipated or actual LEA MOE exceptions (step 4) for the year the LEA intends to take the LEA MOE adjustment from the total expenditures in the comparison year (step 2). The result is the amount by which the LEA plans to or has reduced its spending.
6. Compare the difference (step 5) to the maximum amount of the reduction (step 1).

7. Determine the anticipated or actual freed-up funds:
 - If the amount by which the LEA plans to or has reduced its spending (step 5) is equal to or less than the maximum reduction (step 1), that is the amount of the anticipated or actual freed-up funds that can be used from local funds or state and local funds.
 - If the amount of the difference (step 5) is greater than the maximum amount of the reduction (step 1), the LEA has planned to or reduced spending by a greater amount than the available reduction. In that case, the LEA should increase budgeted or actual expenditures until step 5 is equal to or less than step 1.

Table 3. Sample Calculation of Freed-Up Funds from LEA MOE Adjustment

Steps	Dollar amount
1. Determine the amount by which the LEA may reduce its level of effort by using the LEA MOE adjustment in FFY 2022, as illustrated in Table 1.	\$300,000
2. Identify expenditures (from local funds or state and local funds) in the comparison year for determining the LEA MOE compliance threshold (i.e., FFY 2021, the last year the LEA met the compliance standard using the same method).	\$4,500,000
3. Estimate or identify the amount (from local funds or state and local funds) of budgeted or actual expenditures in FFY 2022, the year the LEA intends to take the LEA MOE adjustment.	\$4,300,000
4. Estimate or identify anticipated or actual LEA MOE exceptions in FY 2022 under 34 CFR §300.204.	\$25,000
5. Subtract the sum of budgeted or actual expenditures for the year in which the LEA expects to use the LEA MOE adjustment (step 3) and the amount of any anticipated or actual applicable LEA MOE exceptions (step 4) from the total expenditures in the comparison year (step 2).	\$175,000
6. Compare the difference (step 5) to the maximum reduction amount (step 1).	$\$175,000 < \$300,000$
7. Determine the anticipated or actual freed-up funds resulting from the LEA MOE adjustment in FFY 2022.	\$175,000

Because \$175,000 is less than \$300,000, the amount by which the LEA in Table 3's example may reduce its LEA MOE—and therefore the amount of the freed-up funds—is \$175,000.

Examples of Activities Supported with Freed-Up Funds

The LEA must use an amount of state or local funds equal to the amount of freed-up funds to carry out activities that could be supported with funds under the ESEA, regardless of whether the LEA is using ESEA funds for those activities (34 CFR §300.205(b)). Activities that could be supported with freed-up funds include but are not limited to those activities that are supported under the following federal educational programs:

- » Title I, Part A - Improving Basic Programs Operated by LEAs;
- » Title I, Part C - Education of Migratory Children;
- » Title II - Preparing, Training, and Recruiting High-Quality Teachers, Principals, or Other School Leaders;
- » Title III - Language Instruction for English Learners and Immigrant Students;
- » Title IV, Part A - Student Support and Academic Enrichment Grants;
- » Title IV, Part B - 21st Century Community Learning Centers; and
- » Title IX-A - Homeless Children and Youths.

Tracking and Monitoring the Use of Freed-Up Funds

IDEA does not include a data collection or reporting requirement for freed-up funds. However, under 34 CFR §300.149, SEAs have the responsibility for general supervision, which includes the monitoring of freed-up funds. An SEA may require a specific report detailing the use of freed-up funds, and LEAs should retain documentation. For example, the LEA might provide expenditure reports documenting the use of an amount of state or local funds—equal to the LEA MOE adjustment—for activities that could be supported by ESEA funds. In addition, the Office of the Inspector General has examined the monitoring and accounting of freed-up funds in prior audits.

When the SEA is made aware that an LEA meets the criteria and intends to reduce its required MOE level through the LEA MOE adjustment (budgeted or retroactively), the SEA should consider

- » verifying that the amount is no greater than 50 percent of the difference in the LEA's Section 611 allocation, using a calculator such as the IDEA Data Center (IDC) *MOE Reduction Eligibility Worksheet*. If the amount exceeds the allowable amount, the SEA must notify the LEA, and the amount must be corrected;
- » requiring an assurance from the LEA that any freed-up funds are used for activities that could be supported with ESEA funds, regardless of whether the LEA is using ESEA funds for those activities;
- » requesting a plan from the LEA to describe the intended or the actual use of the freed-up funds; and
- » requesting documentation from the LEA for the actual expenditure of the freed-up funds during the SEA's fiscal monitoring process.

State Considerations

Do your LEAs understand that IDEA allows for an LEA MOE reduction when there is an increase to the LEA's IDEA allocation?

LEAs may not fully understand this flexibility that could potentially be used to mitigate LEA MOE shortfalls. This flexibility contains several requirements that may need to be further explained to LEAs, and LEAs may be more able to reduce MOE if they have planned in advance to use this adjustment.

Do your LEAs understand that the flexibility is only related to the IDEA Part B Section 611 allocation increase?

The LEA MOE adjustment only applies when there is an increase in the LEA's IDEA Part B Section 611 allocation. The maximum amount of the potential reduction is equal to 50 percent of the Section 611 allocation increase, not inclusive of any increases to the Section 619 allocation.

What procedures or systems could SEAs or LEAs put in place to track freed-up funds?

SEAs or LEAs can establish an accounting coding structure within their internal financial management system that will allow traceability of freed-up funds used to carry out activities that could be supported with funds under the ESEA.

Resources

- » Local Educational Agency (LEA) Maintenance of Effort (MOE) Organizer
<https://cifr.WestEd.org/resources/lea-moe/organizer/>
- » Maintenance of Effort and Early Intervening Services—34 CFR §300 Appendix D
https://www.ecfr.gov/cgi-bin/text-idx?SID=cce1c4f6f8dd87f84f71b58c3de55b89&mc=true&node=ap34.2.300_1818.d&rgn=div9
- » Quick Reference Guide on the Allocation of IDEA Part B Subgrants to Local Educational Agencies
<https://cifr.wested.org/resource/quick-reference-guide-on-the-allocation-of-idea-part-b-subgrants-to-local-educational-agencies/>
- » Quick Reference Guide on IDEA Local Educational Agency Maintenance of Effort
<https://cifr.wested.org/resource/quick-reference-guide-on-idea-local-educational-agency-maintenance-of-effort/>
- » Understanding LEA MOE PowerPoint Training Deck
<https://cifr.WestEd.org/resource/understanding-lea-moe-powerpoint-training-deck/>

For additional resources, please visit CIFR at <http://cifr.WestEd.org> or contact us at cifr_info@WestEd.org.

The Center for IDEA Fiscal Reporting (CIFR) helps states improve state capacity to collect, report, analyze, and use IDEA fiscal data. The center is a partnership among WestEd, AEM Corporation, American Institutes for Research (AIR), Emerald Consulting, the Frank Porter Graham Child Development Institute at the University of North Carolina at Chapel Hill, the Center for Technical Assistance for Excellence in Special Education (TAESE) at Utah State University, and Westat. The Improve Group is CIFR's external evaluator.

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