Special Education Finance in California

Technical Appendices

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Appendix A. Problems with AB 602 and Other State Funding Programs for Special Education

The AB 602 model was based on a few simple assumptions: Total ADA linked special education funding to changes in the size of the student population without encouraging districts to identify students with disabilities. Per-ADA funding rates were based on the statewide incidence and mix of disabilities—and, by extension, the average cost of providing services. But, not surprisingly, over a 20-year period, the average cost assumption has not held. The proportion of students identified for special education has grown and the mix of disabilities has become more expensive over the past decade, creating significant cost pressures for districts. We discuss these issues in more detail below.

**Special education serves a larger proportion of students**

Figure A.1 illustrates important changes to special education caseloads over the past 10 years. The figure shows percentage changes in the number of students with special needs over these years, as well as the change in total ADA of the K-12 system. We have divided students with special needs into three groups: students ages 4 and under (whom we will call pre-K students), students over the age of 18, and students with special needs from ages 5–18. As the figure shows, total ADA declined slightly during the period. The annual changes were very small, but over the course of the decade, total ADA fell by one percent. As ADA shrank, so did the level of state special education resources.

**FIGURE A.1**
Total ADA has not reflected changes in special education caseloads

Special education caseloads, however, did not fall, but grew substantially. Students with special needs ages 5–18 declined through 2012–13 and then rose sharply. By 2015–16, caseloads of this group had risen 5.7 percent compared with 2005–06. But the two other groups increased more substantially. Pre-K students enrolled in special education classes rose by 16.7 percent due to increases in autism. The over-18 group grew an astonishing 80 percent over the 10 years.

SOURCE: California Department of Education, special education enrollment.
While caseloads were increasing, AB 602 funding was not. Figure A.2 illustrates, both in real (inflation-adjusted) and nominal dollars, that special education funding per special education pupil has fallen since 2007.

**FIGURE A.2**
Special education funding per student with disability has fallen since 2007

![Special education funding per student with disabilities](source: CDE CASEMIS and funding data.)

The figures reveals a major weakness of the AB 602 model: Funding rates are static, changing only by cost-of-living adjustments from year to year. But the special education caseload is dynamic and changes can affect district costs significantly. Below, we estimate the impact of the changing special education population on district costs.

**Caseload growth and the mix of disabilities affects costs**

The rapid rise in the number of children diagnosed with autism has made headlines in recent years. This growth reflects a more general trend in California of students being diagnosed with more complex and expensive disabilities. To illustrate the impact of this trend on special education costs, we used estimates of educational costs by disability category (Augenblick, Palaich and Associates 2011). There are two important caveats to this data. First, the data are old—costs are from 1999–2000. Since inflation has increased these costs, our estimates are likely somewhat low. Second, most disability categories contain students who require extensive and expensive services and those whose disabilities are moderate and less expensive. Thus, average costs make assumptions about the proportion of higher cost students in each category and we do not know how the study data compares with California’s in this regard.

These uncertainties aside, our analysis is very simple: We multiplied the average cost estimates times the number of students identified in each disability category. We used the same costs in 2006–07 as in 2015–16. That way, any difference in total costs would be attributable entirely to the changing number of students and mix of disabilities. Appendix Table A.1 shows the outcome of this analysis. Costs increased $1.1 billion over the 10 years between 2006–07 and 2015–16, or 13.7 percent. Caseload growth discussed above accounts for 8.1 percent of this change, or about $670 million. The other 5.6 percent, or $460 million, is due to the mix of disabilities.
TABLE A.1
Increases in autism and other health impairments boost special education costs (costs in millions)

<table>
<thead>
<tr>
<th></th>
<th>Number of Students</th>
<th>Change in Caseloads</th>
<th>Standardized Costs</th>
<th>Change in Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autism</td>
<td>39,706</td>
<td>97,156</td>
<td>144.7%</td>
<td>$746</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,826</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,080</td>
</tr>
<tr>
<td>Emotional Disturbance</td>
<td>27,073</td>
<td>24,311</td>
<td>-10.2%</td>
<td>$383</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$344</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>($39)</td>
</tr>
<tr>
<td>Hearing impairment/deaf</td>
<td>12,479</td>
<td>13,767</td>
<td>10.3%</td>
<td>$200</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$22</td>
</tr>
<tr>
<td>Intellectual Disability</td>
<td>43,522</td>
<td>43,913</td>
<td>0.9%</td>
<td>$655</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$661</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$6</td>
</tr>
<tr>
<td>Multiple Disability</td>
<td>5,673</td>
<td>6,620</td>
<td>16.7%</td>
<td>$114</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$133</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$19</td>
</tr>
<tr>
<td>Orthopedic Impairment</td>
<td>15,429</td>
<td>11,745</td>
<td>-23.9%</td>
<td>$247</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$188</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>($59)</td>
</tr>
<tr>
<td>Other Health Impairment</td>
<td>43,492</td>
<td>83,361</td>
<td>91.7%</td>
<td>$575</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,103</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$528</td>
</tr>
<tr>
<td>Specific Learning Disability</td>
<td>306,938</td>
<td>288,294</td>
<td>-6.1%</td>
<td>$3,241</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>$3,044</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>($197)</td>
</tr>
<tr>
<td>Speech or Language Impairment</td>
<td>178,597</td>
<td>159,750</td>
<td>-10.6%</td>
<td>$1,957</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,751</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>($206)</td>
</tr>
<tr>
<td>Traumatic Brain Injury</td>
<td>1,779</td>
<td>1,691</td>
<td>-4.9%</td>
<td>$29</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$28</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>($1)</td>
</tr>
<tr>
<td>Visual Impairment</td>
<td>4,807</td>
<td>3,665</td>
<td>-23.8%</td>
<td>$90</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$69</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>($21)</td>
</tr>
<tr>
<td>Total</td>
<td>679,495</td>
<td>734,273</td>
<td>8.1%</td>
<td>$8,236</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$9,365</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,129</td>
</tr>
</tbody>
</table>


NOTE: Cost data are based on national cost information from 1999–2000 and have not been adjusted for inflation or other factors. Costs may not add up to total due to rounding.

This overall cost increase is about the same as the jump in the estimated cost of serving autistic students in California, which has a relatively high average cost. According to our model, costs associated with the large increases in the number of autistic students and students diagnosed with “other health impairments” were partially offset by significant reductions in students identified with specific learning disability (-6.1%) and speech and language impairments (-10.6%). Since these are the two largest disability groups, the cost savings from these reductions is significant. Nevertheless, the changing mix of disabilities accounts for about 40 percent of the estimated cost increases schools experienced in the past 10 years.

Other State Special Education Funding Programs

In addition to the AB 602 formula, the state delivers funding through three additional major funding programs: funding for mental health services, infant and preschool programs, and an out-of-home adjustment to the AB 602 formula. In the discussion below, we identify important issues for the Legislature and Governor to consider as they debate reformulating special education funding.

Merge mental health fund into base grants

This formula supports the provision of mental health services to special education students. Funds are allocated to SELPAs based on the total ADA of districts in each SELPA—the same as the AB 602 formula. In 2014–15, the budget included $357 million for mental health services.

Mental health services are provided to students with special needs to help them succeed in school. Students with emotional problems, for instance, may be assessed as needing mental health services under special education if those problems interfere with their ability to learn. Similarly, students with other disabilities may receive mental health services as a complement to other services if they are needed.
Until 2011, county mental health services agencies were paid by the state to administer mental health services to special education students. These county agencies also provide mental health services under the state Medi-Cal program. In 2011, the state transferred responsibility for serving students with special needs and funding to local education agencies. The new K-12 categorical funds may only be used for mental health services for special education students. The restriction on using funds only for mental health services was supposed to be temporary. The enabling legislation expressed the state’s intent that it remain in place for only two years. However, the restriction remains in effect as part of the 2016–17 Budget Act.

**Restrictions significantly reduce local flexibility**

The limitations on the use of mental health funds create several problems at the local level. Districts may not use funds to address mental health issues of students who are not identified as eligible for special education services, but who may become identified without help. School-level models for addressing student behavior and mental health needs create a spectrum of prevention and early intervention services that meet the needs of all students—special education or not. As a consequence, restricting the use of these funds makes it more difficult for districts to implement these models and may encourage districts to identify students for special education in order to use mental health funding to pay for services.

In addition, requiring SELPAs to spend a set amount for mental health services implies that the state allocation provides the minimum amount districts need to meet the needs of students. Given the diversity of the state, it is unlikely that one formula works for all districts. What seems more probable is that the spending rules have no effect on the spending of districts that experience a significant need for mental health services. But in districts with relatively low need for services, districts struggle to spend mental health fund allocations. Indeed, the California State Auditor found two of four districts reviewed had balances of unspent state mental health funds.1

Most special education educators we interviewed thought the transfer of responsibilities for mental health services was a good change. Most significantly, educators felt they were on the periphery of decisionmaking over mental health services before the transfer. Now they have responsibility and control over those decisions, which gives them a more complete picture of student needs and how to address them. Most educators we interviewed felt that the separate distinction should be eliminated and that funds should be combined with other AB 602 funds. Some did not, however. Their rationale for maintaining separate grants were based on the importance of mental health services and the significant need in some communities.

The principles underlying LCFF, however, would place decisions about the best use of funds at the local level. If mental health needs in a community are urgent, educators, teachers, and parents should debate how to fund those services. But if the need for mental health services is relatively modest, districts should be able to spend unused funds on services with greater returns for students. This is the essence of local control and it should extend to special education and mental health services.

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1 California State Auditor, *Student Mental Health Services Some Students’ Services Were Affected by a New State Law, and the State Needs to Analyze Student Outcomes and Track Service Costs*, 2015
Out-of-Home Care Funding

The Out-of-Home Care (OOHC) formula adjusts district funding allocations to account for students with special needs who reside in group homes or other licensed community institutions (LCIs). In 2014–15, the OOHC formula distributed $146 million to SELPAs. The funds may be used for any special education cost. They are not required to be spent on students residing in LCIs who attend private special education schools (known as nonpublic schools). The formula was established in 2006, replacing a program that supplied 100 percent funding for students placed in nonpublic schools.

The OOHC formula recognizes that LCIs are not evenly distributed across the state, but many students residing in these facilities receive special education services. The formula has two parts. One distributes funds based on the number of students attending six types of facilities: foster family homes, small family homes, foster family agencies, skilled nursing facilities, intermediate care facilities, and community care facilities.

The second part bases funding for students in group homes based on the number of beds in each facility. The amount distributed per bed uses a 14-level rate classification level (RCL) developed by the state Department of Social Services to license group homes. The RCL reflects the intensity of care and social and mental health services available at each facility. Funding ranges from $599 for the lowest RCL facilities to a maximum of $24,000 for the most intensive type of group home or skilled nursing facility.

The largest component of the formula is group homes: 75 percent of OOHC funds are distributed based on the number of beds in these facilities. Indeed, without group homes, the need for a separate formula for the remaining institutions would be dramatically reduced. A few SELPAs have a disproportionate number of group homes located in their service areas, leading to large OOHC allocations for those SELPAs. The average SELPA receives $27 per ADA under the OOHC formula. The 11 SELPAs that receive more than $50 per ADA receive an average of $104 per ADA. Pasadena Unified SELPA was allocated $252 per ADA—the highest in the state. The wide variation in funding levels illustrates how the location of group homes affects the distribution of special education students.

Pay for actual residence, not for capacity

Recently passed legislation is expected to significantly reduce the number of group home placements and eliminate critical data used in the formula. Assembly Bill 403, enacted in 2015, will eliminate the RCL system as part of an effort to reduce the use of group homes. Instead, county foster-care programs will provide needed mental or social services to children in family settings. These settings could be a student’s home, a relative’s home, or other foster-home settings. The Department of Social Services expects the number of students placed in group homes to fall perhaps 50 percent once the new system is implemented. Placements in group homes also should be shorter duration. The 2016–17 Budget Act continues the use of old RCL data while the new law is implemented.

The state should monitor the implementation of AB 403 to determine whether there is a continuing need for the Out-of-Home Care adjustment. If group home placements fall by 50 percent as envisioned, the average would fall to $16 per ADA and only six SELPAs would receive more than $50 per ADA. It seems likely, though, that the decline in group home use will not occur evenly across the state, which could change which areas receive the most from the OOHC. Should group home use fall in a way that results in a more even distribution of funds, the state may want to phase out this funding program.

One change that could be made now is to pay for the actual number of students residing in group homes instead of the existing bed capacity. This change is appropriate because data indicates the state is paying for about twice the number of group home beds than are actually used. Data from the Department of Social Services show that only 3,786 foster children resided in group homes on July 1, 2014. CDE data indicate that the OOHC formula pays for more than 7,400 group home beds, which means that only half of all beds are actually filled at any one time.
In 2014–15, the state distributed $108 million to recognize the potential special education costs of students residing at group homes. This suggests savings in the range of $50 million if the state paid for students who actually reside in group homes and not the capacity of the homes. Since this formula is designed to recognize that licensed community institutions can significantly alter the distribution of students with special needs (and costs), it makes sense to pay only for actual students and not capacity.

State funding for pre-K programs

Federal law requires districts to serve children ages 0–5 with identified disabilities. The 2014–15 education budget supplied $71 million in state funds for services to infants (children ages 0–2) with certain disabilities. The budget specifies that funds are to serve the number of students above levels that were enrolled during 1992–93. State funding for preschool-age students with disabilities (ages 3–4) are included in the AB 602 formula.

There are several other grants that specifically fund services to very young children. Federal funds channeled through the Department of Developmental Services (DDS) supplied $14.2 million to SELPAs in 2016–17 for children ages 0–2. Federal special education funds also supplied $35.5 million for preschool programs in 2015–16. Requirements for services to pre-K children are similar to those of school-age students. Children are eligible for free and appropriate public services delivered in the least restrictive environment. Responsibility for serving infants with disabilities is shared with DDS. Districts assume sole responsibility for assisting children when they reach age three. CDE data show that 54,900 children were enrolled in special education infant and preschool programs in 2014–15.

The state infant funding formula has significant disparities

The infant program funding formula dates back to 1992, and suffers from two important problems. First, it is based on a rigid formula that calculates funding based on the setting in which children are served. AB 602 eliminated a similar formula that was used to calculate funding for all other special education programs.

Second, the formula also results in widely disparate per-ADA rates to districts. District preschool programs that have not grown much since 1992 receive a small amount of additional dollars when averaged over the entire preschool population. Those that have grown significantly receive much higher amounts. For instance, Palo Verde SELPA in Riverside County receives $4,710 for each infant enrolled. At the high end, Pomona Unified SELPA receives $19,898 for each infant.

State funding discourages districts from serving pre-K students

The Statewide Special Education Task Force called for a bigger emphasis on early services to children, in part because early services may reduce the severity of some disabilities. Studies of preschools suggest that participation may help children with disabilities enter kindergarten with roughly the same mathematics and language skills of other students. There also is evidence that early services to infants may significantly reduce the severity of some types of disabilities, such as autism. Thus, these services can be cost-effective for districts and hugely beneficial to children.

Yet, the state’s funding of services to pre-K students discourages districts from serving these children. Specifically, the state does not include this population in calculation of ADA. This requires districts to pay for infant and preschool from state and federal special education dollars. Had pre-K students with special needs counted towards ADA, districts would have received base funding for these students as they do for all other K-12

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2 Carlson et al. 2008.
3 See for example Koegel et al. 2013.
students. As a result, when pre-K caseloads rise faster than K-12 ADA, as they did over the past decade, unmet special education costs grow very quickly.4

There also is evidence that schools could serve more pre-K students. DDS data show there are 30,000 infants in regional special education programs, but only about 6,000 are enrolled in district or county school programs. Because the responsibility for helping infants with special needs is shared with DDS, it’s difficult to determine how well districts are doing their part. For preschool students, however, the data suggest that one in five special education kindergarten students (about 6,400 children) are first identified in kindergarten and did not receive services in preschool classes.5

**Support special education pre-K students like other students with disabilities**

We see two options for addressing the financial issues posed by children ages 3–4 with disabilities. If the state funded preschool children like other special education students, the state could make it financially easier for districts to place a priority on enrolling these young children. This would require the state to count students towards district ADA so they would receive a base grant for each pre-K student, plus supplemental and concentration funds if appropriate. Including them in ADA would also recognize these children in the AB 602 formula.

Providing base, supplemental, and concentration grants would cost the state more than $500 million. While this is a significant sum, it could be offset by lowering AB 602 rates for districts with very high rates and using the freed-up funds to pay for base grants for pre-K students in those districts. In that way, the state could reduce disparities in AB 602 grants and reduce the cost of equalization while not decreasing funding for any district.

Another alternative would boost the supplement provided to state-funded preschool programs when they enroll children with disabilities. This would create a stronger incentive to serve all children in the same setting. It also would avoid the issue of expanding the mission of K-12 to include preschool. With either alternative, the most important reason to make a fix is to eliminate any funding disincentive for serving children at an early age. By creating fiscal incentives for districts to serve these children, California could reap the long-term benefits that come with addressing disabilities at an early age. This is consistent with the state task force recommendation and lessons from research.

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4 In 2015–16, schools served 52,600 pre-K students (mostly preschool students), an increase of 7,500 from 2005–06.
5 2015–16 counts of students with special needs show a 20% increase in the number of five-year-old students with disabilities compared with the number of four-year-old children attending preschool in the previous year.
Appendix B. Additional Figures for Analysis of Distribution of Students with Disabilities

Figure B.1 illustrates that in 20 percent of counties more than 72 percent of students with special needs are high-need. These students generate not only base grants through the LCFF as all students with special needs do, but also supplemental grants and concentration grants in districts where more than 55 percent of students are high-need.

**FIGURE B.1**
Share of students with special needs that are high-need, California Counties

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6 The term “high-need” is synonymous with “unduplicated”.
7 If 56% or more of a district’s students are high need, concentration grant funding is generated by counting the numbers of high need students over the 55% threshold and multiplying the base grant by 0.50.
This map gives us a general sense of where the LCFF dollars generated by students with special needs are highest. At the SELPA level, the share of students with special needs that are English Learners ranges from 1 to 75 percent, with a mean of 27 percent. The share that are economically disadvantaged ranges from 8 to 92 percent, with a mean of 53 percent. At the county level, the shares of students that are ELs range from 1 to 56 percent with a mean of 24 percent. The share that are economically disadvantaged ranges from 36 to 83 percent, with a mean of 65 percent.

Because the share of high-need students in the K-12 population varies by county as well, this map is not a good guide for the extent to which high-need students with special needs have disproportionately been identified.

**FIGURE B.2**
Differences in share of high-need between special education and K-12 students by county

Figure B.2 illustrates the percentage point difference between the share of students with special needs that are high-need and the share of K-12 students overall that are high-need at the county level. Counties where the general K-12 student population and the special education population have the same percentage of high-need students have a difference of zero, and are represented by orange in the map. We find counties range from -11 to 29 percentage points, illustrating that in some counties, EL, economically disadvantaged, and foster youth are underrepresented among students with special needs relative to their share in the student population. But in most counties, they are overrepresented.
Costs of disability types

It is difficult to assess the true cost of serving particular types of disabilities. Many of the more common disabilities, such as specific learning disability and autism, range in severity and therefore in their intensity of services. Further, models for serving students with disabilities can vary based on SELPA or district practices.

We examined two proxies for cost: (1) the share of time a student spends in a regular classroom; and (2) the share of time a student spends in regular schools. As Table B.1 illustrates, the percentage of time students with IEPs are served in a regular classroom varies significantly by disability type. California’s current target is to have 49.2 percent of students with special needs in regular class settings 80 percent of the time. For most classes of disability, over 90 percent are served in regular schools. The disability classifications where a regular school setting is least likely are emotional disturbance (74%), multiple disability (75%), deafness (69%), deaf-blindness (78%).

<table>
<thead>
<tr>
<th>Disability Type</th>
<th>Count</th>
<th>% Time in Regular Class Setting</th>
<th>% in Regular School</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific Learning Disability</td>
<td>284,196</td>
<td>72%</td>
<td>99%</td>
</tr>
<tr>
<td>Speech or Language Impairment</td>
<td>160,071</td>
<td>81%</td>
<td>99%</td>
</tr>
<tr>
<td>Autism</td>
<td>90,794</td>
<td>45%</td>
<td>92%</td>
</tr>
<tr>
<td>Other Health Impairment</td>
<td>76,122</td>
<td>69%</td>
<td>97%</td>
</tr>
<tr>
<td>Intellectual Disability</td>
<td>43,740</td>
<td>25%</td>
<td>90%</td>
</tr>
<tr>
<td>Emotional Disturbance</td>
<td>24,214</td>
<td>42%</td>
<td>75%</td>
</tr>
<tr>
<td>Orthopedic Impairment</td>
<td>12,293</td>
<td>40%</td>
<td>84%</td>
</tr>
<tr>
<td>Hard of Hearing</td>
<td>10,325</td>
<td>63%</td>
<td>97%</td>
</tr>
<tr>
<td>Multiple Disability</td>
<td>6,435</td>
<td>14%</td>
<td>75%</td>
</tr>
<tr>
<td>Visual Impairment</td>
<td>3,864</td>
<td>59%</td>
<td>93%</td>
</tr>
<tr>
<td>Deafness</td>
<td>3,531</td>
<td>32%</td>
<td>69%</td>
</tr>
<tr>
<td>Traumatic Brain Injury</td>
<td>1,744</td>
<td>50%</td>
<td>90%</td>
</tr>
<tr>
<td>Established Medical Disability</td>
<td>506</td>
<td>25%</td>
<td>84%</td>
</tr>
<tr>
<td>Deaf-Blindness</td>
<td>116</td>
<td>19%</td>
<td>78%</td>
</tr>
</tbody>
</table>

(Source: Authors’ calculations from 2014–15 CASEMIS.)

Disabilities where more than half of students are served outside a regular classroom and more than 10 percent are placed outside a regular school are all low-incidence (emotional disturbance, orthopedic impairment, multiple disability, and deafness). It is not clear that serving students with disabilities outside regular school settings or outside regular classrooms is always more expensive. For example, a full-time aide for one student in a regular classroom setting and regular school could cost more than another kind of placement. However, whenever possible, districts are required to place students with IEPs in the least restrictive environment.
Appendix C. Using Supplemental and Concentration Grants for High-Need Students with Disabilities

A greater percentage of high-need students are found among California students with special needs than among the K-12 population overall (70% versus 63%). A recent disagreement between the Los Angeles Unified School District (LAUSD) and the California Department of Education illustrates the potential difficulty of commingling funding sources for special education with those for high-need students, despite the high degree of overlap between the two populations. This example has to do with how LCFF funding for high-need students is counted if they are also special education students.

The LCFF sends extra funds to districts on a per-pupil basis for economically disadvantaged, English Learner students, and foster youth. This funding in the form of supplemental and concentration grants is meant to be spent on programs and services that benefit high-need students. In districts where more than 55 percent of students are high-need, the funding can be spent on districtwide programs.

Because LCFF is being phased in over many years and because policymakers acknowledge that the requirement to spend supplemental and concentration grants on high-need students might require a shift in priorities, districts have to make proportionate increases to spending on these students over time.

In the first year of the LCFF, districts had to document what they spent the previous year on high-need students. This figure was used to set the base for determining what percentage (minimum proportion or MPP) of new funding must “increase or improve” services for high-need students. Having a high base should reflect that a district already prioritized high-need students and would decrease the percentage of new funds that must be spent on high-need students.

A complaint filed by Public Advocates alleged that the LAUSD shortchanged high-need students by inflating its estimate of the dollars spent on high-need students in the pre-LCFF year. The LAUSD assumed that because 79 percent of students with special needs are high-need, the district could count 79 percent of its special education spending ($450 million) as part of the investment the district was already making in high-need students before LCFF. Further, 84 percent of LAUSD students are high-need.

The complaint argued that because special education is provided to all eligible students, none of the $450 million can be counted as part of the LAUSD’s base-year spending on LCFF. LAUSD countered that students with special needs are not “all” students. At this point, CDE determined that LAUSD was not interpreting “all” the way that the school finance law intends, but suggested that districts can identify special education services that are directed specifically to high-need students and not other special education students as meeting the intent of the LCFF funding law. The LAUSD’s 2016–17 LCAP indicates that the district is setting aside $245 million which will be allocated pending the district’s submittal of reconsideration to CDE.
Appendix D. Special Education Financing in Other States

This appendix provides greater detail on how other states fund special education. It first identifies the issues states appear to be balancing in establishing their special education finance models. It then categorizes states into three different models. Finally, it discusses unique features that some states have implemented as part of recent changes to their special education financing systems.

To examine special education financing in other states, we reviewed existing overviews and other relevant literature. In addition, we spoke with senior administrators in 13 states to discuss how they distribute resources and, in some cases, the rationale for recent changes made to special education financing programs. We also contacted individuals at the Council of Chief State School Officers association and the Education Commission of the States.

Challenges

All states must comply with the federal mandate to provide free, appropriate public education to students with disabilities. In return, they receive federal funding under the Individuals with Disabilities Education Act (IDEA). In addition to federal resources, states supplement these dollars with state resources. How these funds are distributed varies. States have chosen different approaches to address the challenges of trying to provide resources for students with disabilities. In general, there are four issues that all states must confront.

- **Adequacy and equity.** Providing education services to students with disabilities can be costly and is not optional. While state and federal dollars provide significant support, local school district revenues often account for a major share of the costs. We found only one state, Wyoming, where local districts did not shoulder some of the special education cost burden. Officials in each of the states we contacted noted that local districts complained that state and federal support was inadequate. Most states aim for a model that is equitable, although how equity is defined varies.

- **Overidentification.** Any state program can create incentives that skew how local districts behave. How a state funds special education could encourage districts to overidentify students with disabilities in an effort to maximize state resources. California’s switch from a system that provided funding based on the number of students with disabilities to one based on ADA was a reform designed to address this challenge (Lipscomb 2009). However, basing funding on total enrollment could encourage underidentification.

- **Economies of scale.** Though significant, the number of students with disabilities represents a minority of the K-12 population and they are not distributed evenly. Further complicating matters is the fact that the package of services are by design individualized. Therefore, finding a way to align needed services for what can be a small number of students in a cost-effective manner can be difficult. Rural states and districts are particularly challenged in this regard.

- **Low incidence/high cost students.** Essentially a subset of the economies of scale challenge, states must cope with how, or whether, to support districts for the very small number of students for whom providing services can be extremely costly. It is not impossible, for example, for a single student’s IEP to cost tens or even hundreds of thousands of dollars. Covering the cost of such services would have a tremendous impact on any district and could be particularly hard for a relatively small one.
Varied funding models, similar structures

How states fund special education is a function of their overall K-12 finance system and the degree to which they balance their response to the above challenges. Not surprisingly, there are tradeoffs and no single approach mitigates all possible concerns. The following discussion identifies some common features of programs in other states and categorizes the different models used to provide funds to local districts. States use a variety of funding models in an effort to provide equal—and from the local perspective inadequate—support. Some take steps to reduce the incentive to overidentify. There is more commonality in administrative structures, with the majority of funds distributed directly to local districts. Other states use other mechanisms—special schools, regional centers, and risk pools—to address the issues of economies of scale and high-cost students.

Funding models

The Education Commission of the States recently published an overview of how the 50 states fund special education which found three broad funding models: formula, categorical, and reimbursement. The findings are summarized in Table D.1.

Thirty-three states include special education resources as part of their primary K-12 funding to local districts. By making special education part of the formula that generates district funding levels, this model avoids the “categorization” of the funding—that is, the requirement that funds be tracked as available only for special education expenses.

All states contend that their goal is to provide special education dollars in an equitable manner, but the way they operationalize equity in a formula differs. Some states base their special education distribution on the number of students identified with disabilities. Other states use total attendance numbers to minimize the incentive to overidentify. The amount included in the formula can be weighted based on the notion that certain types of students are likely to increase the need for resources. States using the number of students with disabilities, for example, may include weights for disability severity. South Dakota divides students with disabilities into six different levels (from “mild disability” to “multiple disabilities”). Oklahoma uses 11 different categories (vision impaired, learning disabled, etc.). Texas bases its counts on the environment in which services are provided (homebound, hospital class, mainstream, etc.) In each case, the formula assigns a different weight, resulting in different funding levels.

Finally, some states cap the share of students a district can count while others establish a floor. Washington caps the number of students with disabilities at 12.7 percent of enrollment. Missouri provides additional dollars for the number of students with disabilities counted above 12.6 percent of enrollment.

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8 Millard and Aragon 2015 appears to be the most recent overview. For earlier snapshots of how states approached special education financing, see Richmond and Fairchild 2013, Ahern 2010, Parrish et al. 2003, and Parrish and Chambers 1996.

9 Some states that use counts of students with disabilities also seek to discourage overidentification by capping the total. For example, Maine caps special education student counts at 15% of total enrollment for funding purposes (Millard and Aragon 2015).
The second most common approach to special education financing is the use of a categorical program that establishes a separate pool of dollars distributed to districts. California and 11 other states use this method. Like the formula approach, each district’s allocation is based on either a count of students with disabilities or total student enrollment. These amounts can be weighted based on the severity of disability.

Only five states use a reimbursement model to support district special education costs. Nebraska, Wisconsin, and Wyoming establish criteria for eligible cases and districts then submit claims for costs incurred. In Nebraska and Wisconsin, districts are reimbursed on a prorated basis depending on how much the legislature appropriated for special education. Wyoming reimburses 100 percent of eligible expenses. Michigan uses student counts to approximate costs and then reimburses districts. Vermont basis reimbursement on staffing levels.

Administrative structures

Though there is considerable variation in how other states calculate the share of special education funds for local districts, the structure they use to administer special education is relatively similar. We did not identify any other state that uses an intermediary to redistribute funds similar to the SELPAs in California. Instead, states distribute dollars directly to districts, which in turn decide how to allocate funds. To address economies of scale and low-incidence/high-cost students, states have established specific programs to provide necessary services in a cost-effective manner. These are discussed below.

Many states, like California, have state-run schools to provide education and services to blind or deaf students. By one count, there are at least 38 state-run schools for the blind, some having been established in the 19th century.10 These state-run schools represent a response to the challenge posed by low-incidence disabilities. In theory, it is more cost-effective to establish a central institution for the provision of services to a student with a disability rather than expecting an individual school district to acquire the training and personnel for a single student. As noted, however, that theory dates back more than a century and the cost of running special schools is relatively high on a per-student basis. Special schools also run counter to the notion of placing students in the least-restrictive environment.

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10 The Maryland School for the Blind, for example, was established in 1853. A list of schools for the blind in the United States can be found on the Texas School for the Blind and Visually Impaired website: http://www.tsbvi.edu/instructional-resources/2785-schools-for-the-blind-in-the-united-states.
In a similar vein, most states have intermediary agencies to provide specific expertise to school districts. The nature of these educational organizations and the services they provide varies. Kentucky has regional education cooperatives offering a broader array of services. This structure provides the infrastructure for the state’s nine special education service regions. New Jersey has four learning resource centers for special education serving as information clearinghouses and providing technical assistance. Indiana’s special education cooperatives offer services directly to students of their member districts. Some resources for these centers may be provided by the state, but most are funded by local districts through membership or service-purchase models. Pennsylvania replaced its county offices of education with Intermediate Units in 1970 to provide both instruction and operational support to school districts, including special education.

Only in California is there an intermediary responsible for redistributing funds to local districts. Oregon’s Education Service Districts may be the most similar structure, though their programs extend beyond special education. In Oregon, state funds are provided directly to the 19 intermediary units, including resources for early intervention/early childhood special education and long-term care and treatment programs. These account for about five percent of total state education revenues. Oregon law requires that 90 percent of Education Service District funds be spent on services to local districts. Recently, the state has allowed local jurisdictions to request that their respective regional districts pass through a portion of allocated funds in the form of cash, rather than services. Local districts can decide how best to spend these “flex funds.”

To address the relatively small number of students whose needs incur high costs, some states have established a separate pool of funds outside the regular flow of resources to districts, similar to California’s Extraordinary Cost Pools. These high cost funds resemble the reimbursement models discussed above. In 2004, Iowa established the High Needs Risk Pool which provides assistance to school districts when the costs associated with an individual student exceed three times the statewide average per student for special education costs (Iowa Department of Education 2013). Like other reimbursement plans, if the total amount of claims exceeds available funds, which they typically do, the state reimburses districts on a prorated basis.

Recent reforms in other states

The distribution of special education resources in other states appears to be constantly changing. States often make incremental adjustments to their formulas, adjusting weights or criteria. Periodically, more dramatic change occurs as in 1998 when California shifted to a census-based system of allocating special education resources. Below are examples of some recent unique innovations in state special education funding:

- **Vouchers.** Beginning in 2016, parents of students with disabilities in Tennessee will be able to apply to the state for a special education voucher. The Individualized Education Act enables parents to set up accounts of approximately $6,300, funded by the state, which can be used to purchase special education services. To be eligible, students must have been enrolled in a Tennessee public school for two semesters. Parents must then enroll their child in a private school and waive their right to claim services under IDEA.

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11 See Moran and Sullivan 2015.
12 See Kentucky Educational Cooperatives.
13 See Special Education Learning Resource Center Network.
14 The Pittsburgh and Philadelphia school districts serve as their own intermediate units. All other districts belong to one of the 27 other intermediate units. See Pennsylvania Association of Intermediate Units.
15 See Oregon Transparency Project, Oregon Education Service Districts.
16 According to the Lane Education Service District 2026-17 Local Service Plan, pass-through funds became available in the 2011–12 school year. About one-third of local districts requested cash in lieu of services.
17 See the Tennessee Department of Education’s description and frequently asked questions about the Individualized Education Act at https://www.tn.gov/education/section/iea.
Consolidation. In 2015, Vermont passed legislation to reduce the number of school districts from 272 to about 50 or 60. The new law, H.361, removes small-district and hold-harmless provisions that provided disincentives for districts to consolidate. One of the arguments supporting H.361 was the high number of students with special needs who had to be served out of school and out of district. The intent is that larger districts will find it easier and less costly to provide special education services in the least restrictive environment because of more-favorable economies of scale.

Hybrids. The above discussion describes different funding approaches and generally treats them as distinct and discreet. In practice, that does not have to be the case. In 2016, Minnesota replaced its reimbursement model with a new special education funding formula based on the recommendations of an earlier school finance work group (Minnesota Department of Education 2012). The new model provides support for high-incidence/low-cost students via a census count, weighted for district size and poverty concentration. Funding for low-incidence/high-cost students is calculated based on student counts, with three weighted disability tiers. Rhode Island represents a different hybrid model, rolling the vast majority of its special education funds into the K-12 base formula for districts. Relatively modest resources are reserved for reimbursement for low-incidence/high-cost students, which typically is distributed on a prorated basis. High cost is defined as five times the state special education cost average.\(^{18}\)

\(^{18}\) Based on conversation with Stephen Osborn, Chief for Innovation, Rhode Island Department of Education, Aug. 5, 2016.
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