

California Special Education Funding System Study: Executive Summary

A DESCRIPTIVE ANALYSIS OF SPECIAL EDUCATION FUNDING IN CALIFORNIA

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In this paper, we build on decades of prior work by policymakers, practitioners, and researchers who also sought to understand and improve California's special education finance system. We are also grateful for the many special education local plan area (SELPA) administrators who voluntarily responded to our lengthy survey to inform this study and the Education Commission of the States, which conducted a review of state high-cost pools across the country to aid in the study. This study also benefited from interviews with and input from current and retired lobbyists, researchers, practitioners, legislators, and advocates who, currently and at different points across the last 40 years, are and have been working to improve special education funding in California.

Collectively, these contributors represent hundreds of years of special education experience, policymaking, implementation, and advocacy. We could not have done this work alone, and we are grateful for the tireless efforts of California's special education leaders and their generous contributions to this work.

Executive Summary

In 2013, the state of California ushered in a new era of education funding, accountability, and support under the Local Control Funding Formula (LCFF). The move to the LCFF dissolved most separate funding streams (often referred to as categorical programs) in favor of an integrated system that includes flexible funding for several underserved student groups, including students experiencing socioeconomic disadvantages, those who are English learners, and those who are in the foster care system (EC § 42238.02). Funding for a few categorical programs was left unaltered, including funding for students with disabilities. However, students with disabilities were included in the accountability components of the LCFF, including each LEA's local control and accountability plan (LCAP) and the California School Dashboard.

Over the past five years, in the wake of reports from the Special Education Task Force (2015) and the Public Policy Institute of California (Hill et al., 2016), policymakers, stakeholders, and researchers have debated the strengths and weaknesses of the current special education funding system. Currently, special education is one of the few remaining separate, categorical funding streams to support the education of California students. Five years after the move to the LCFF, the complex funding system for special education remains separate as the state continues to strive toward greater alignment not

only in its funding system, but also in the programmatic systems for improving educational services and outcomes for all California students.

California serves more than 725,000 students with disabilities (approximately 11.7 percent of the K–12 population) and invests roughly \$12 billion in federal, state, and local dollars annually in special education (California Department of Education, n.d.). State special education funding accounts for approximately 28 percent of the total, with local education agency (LEA) unrestricted funds accounting for the majority (61 percent) of special education spending. States and districts are required, by federal law, to provide a comprehensive, individualized education program (IEP) for each student with a disability (34 CFR § 300.320). However, federal funding accounts for only about 11 percent of the spending on special education, leaving the remaining spending to state and local funding.

Given this investment, the stakes are too high to change the system without a clear understanding of the current system and a thorough investigation of possible improvements. This report accomplishes the first of these tasks, detailing the current special education funding system in California, its history, and the role of the state and intermediaries in the distribution and use of those resources. This executive summary provides the major findings of that review and analysis, further detailed in the main report.

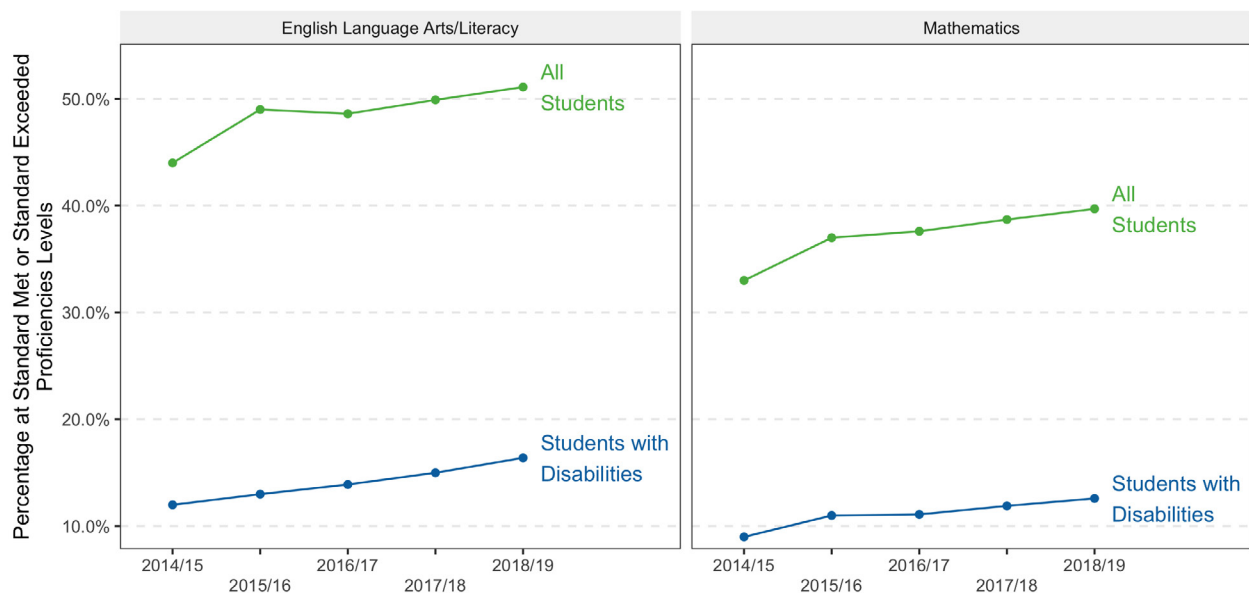
California's Students With Disabilities

In California, as in other states, many students who qualify for special education are also members of other underserved student populations, including, for example, students experiencing socioeconomic disadvantages, those who are English learners, and those who are in the foster care system. California is not the only state to explore the creation of a more coherent, inclusive educational system that gives local leaders the flexibility to use funding on early identification and intervention based on students' learning

needs. Yet, this report's findings echo prior findings that the state's special education funding system operates in parallel to the general education funding system.

California's students with disabilities consistently underperform on standardized assessments. Persistent achievement gaps between students with disabilities and their peers without disabilities suggest that more work is needed to create inclusive, equitable educational systems that ensure all students succeed and thrive.

Figure E-1. Trend in achievement gaps for English language arts / literacy and mathematics across all grades between 2014/15 and 2018/19

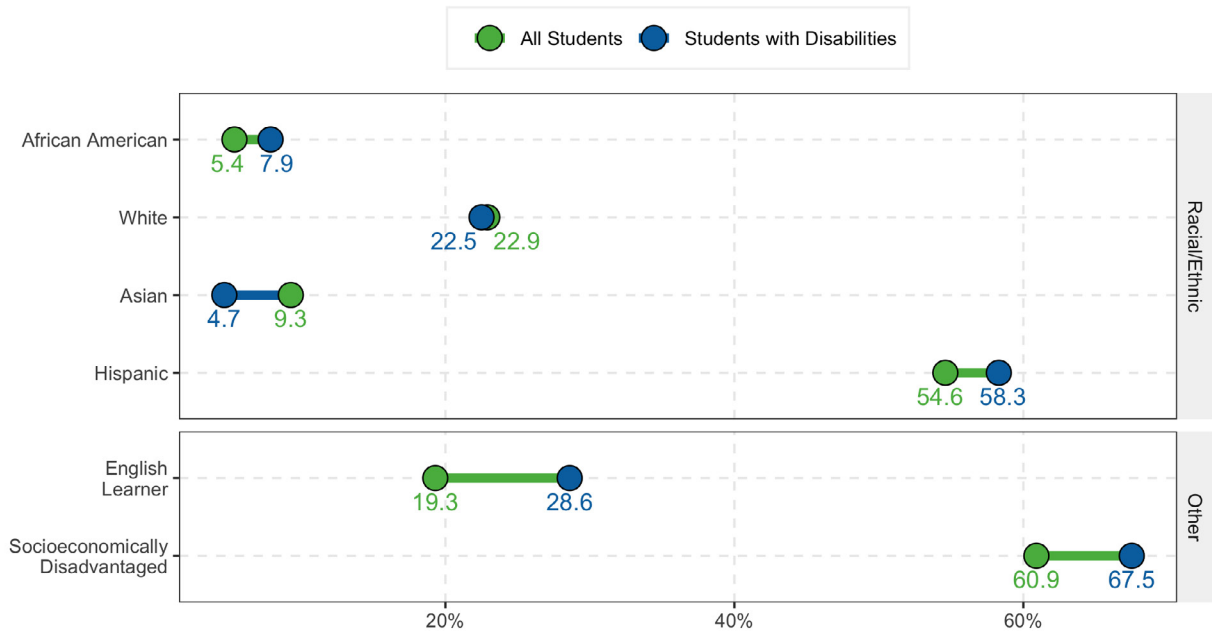


Note. Data from U.S. Department of Education (n.d.); U.S. Office of Special Education Programs (n.d.)

Students with disabilities have other needs that are addressed through different and separate programs and funding streams. The most disproportionate identification rates for special education are found among

English learner students, who represent 19.3 percent of all students, but represent 28.6 percent of students with disabilities, and socioeconomically disadvantaged students, who represent 60.9 percent of all students, but represent 67.5 percent of students with disabilities.

Figure E-2. Disproportionate identification of California students with disabilities (disproportionality), 2018/19 school year

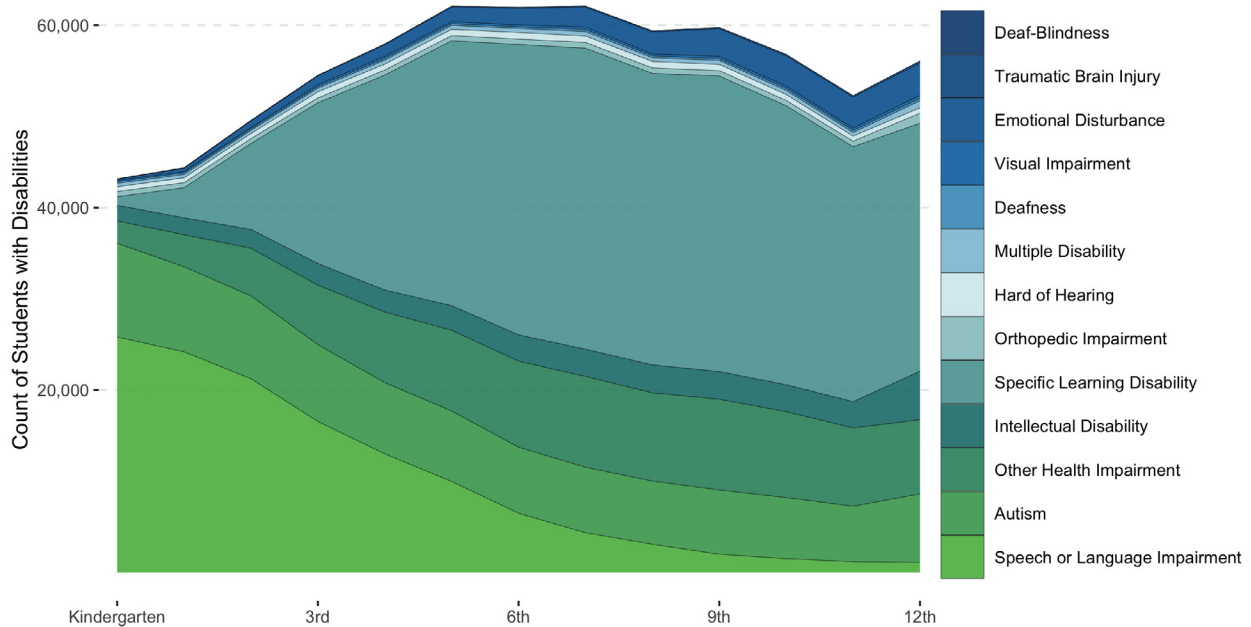


Note. Data from DataQuest Enrollment Data, 2018/19 (CDE, n.d.).

The type and proportion of students identified with disabilities vary considerably by LEA and by grade level. LEAs, including charter LEAs, report rates of students with disabilities ranging between 0 and 36 percent of total enrollment. For the early grades, speech or language impairments constitute the vast majority of identified disabilities.

However, by grades five and six, specific learning disabilities constitute the majority, with speech or language impairments becoming a much smaller proportion of identified disabilities. It is also during this period, around grades five and six, that the number of students with disabilities peaks, with more than 60,000 students identified per grade.

Figure E-3. Disability category by grade in California K–12 schools, 2018/19 school year

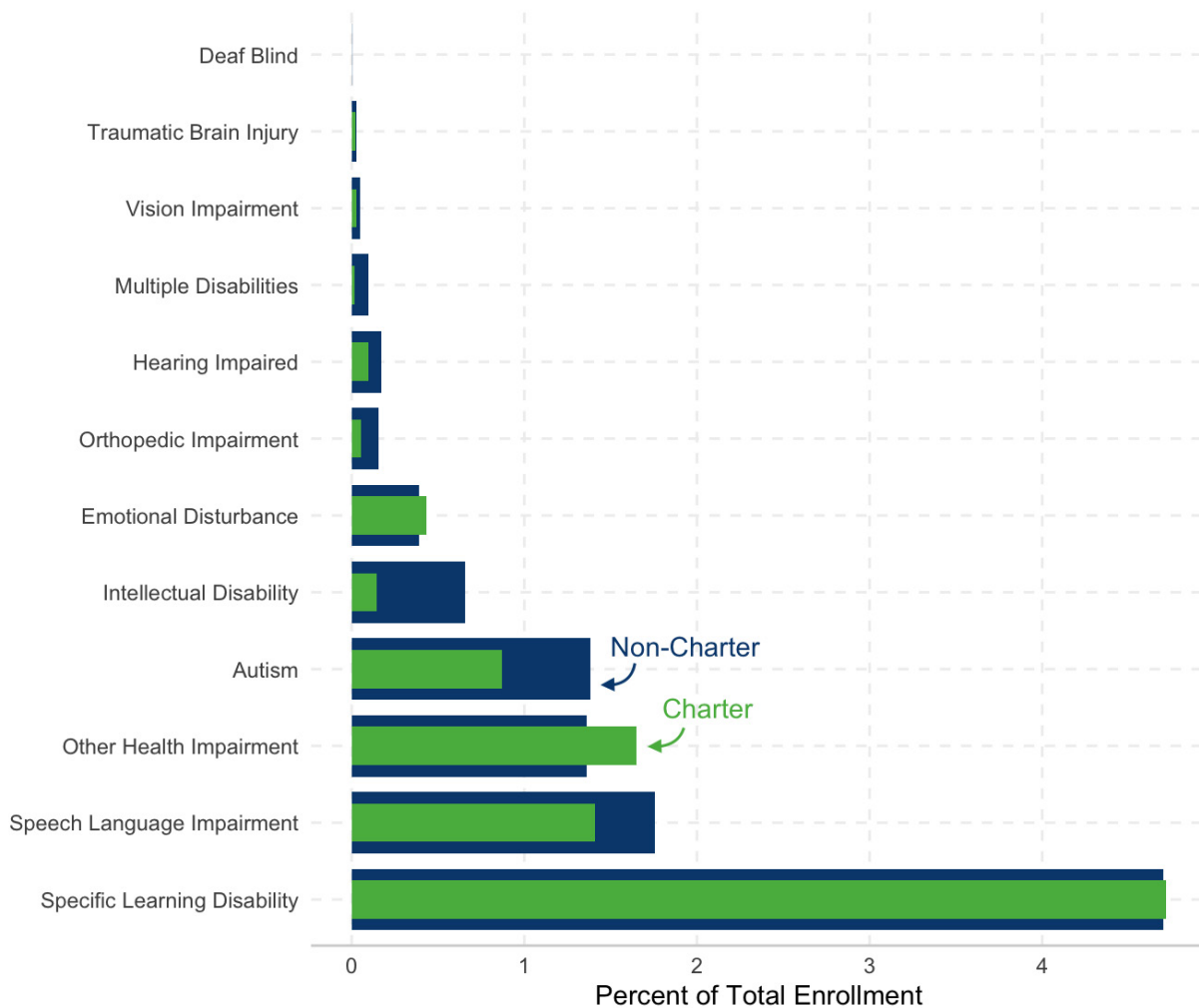


Note. Data from DataQuest 2018/19 Special education enrollment by age and disability statewide report (CDE, 2020a).

Charter school LEAs serve a different profile of students with disabilities than do traditional LEAs. On average, charter schools that are LEAs for purposes of special education enroll fewer students with disabilities than do traditional LEAs — 9.4 percent of enrollment for charter LEAs,

compared with 10.7 percent of enrollment for traditional LEAs. Compared with traditional school districts, charter LEAs also serve smaller proportions of students identified in the other disability categories, including autism, intellectual disability, and multiple disabilities.

Figure E-4. Percent of all students with disabilities, disability category by non-charter and charter LEAs for purposes of special education in California K–12 schools, 2018/19 school year



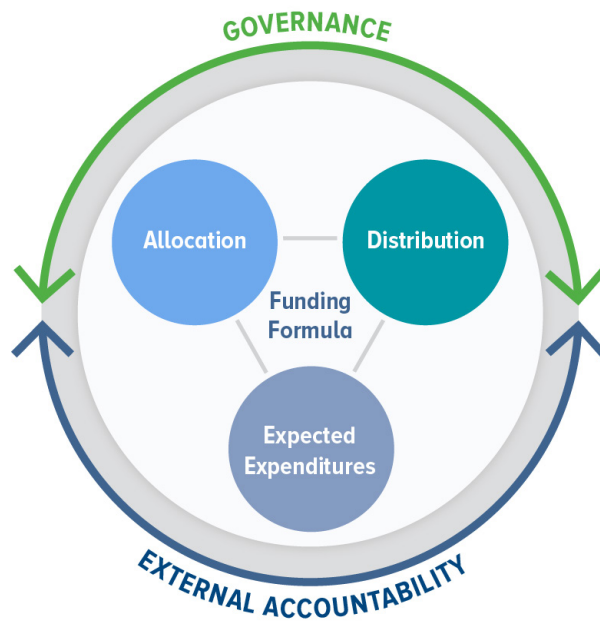
Note. Data from DataQuest 2018/19 Special education enrollment by age and disability statewide report (CDE, 2020a). Non-charter LEAs include charter schools that are schools of the LEA for purposes of special education. See appendix F of main report for details on this distinction.

Special Education Funding Policy

The education funding framework presented in this report includes five key components around which policymakers make decisions that impact funding and practice. At the center of the framework is the *funding formula*, with three components: **allocation** (how amounts of funding are calculated), **distribution**

(directing the funds to specific entities), and **expected expenditures** (requirements for or restrictions on how funds will be spent). State policymakers also make decisions that affect the authority of local **governance** of the funds and reflect **external accountability** placed by the state or federal government for the use of funds.

Figure E-5. Framework for education funding policymaking



California's Special Education Funding System

In California, special education and general education planning, governance, funding, and reporting are separate and siloed. California allocates funds for special education separately from all other education funds and distributes them to different entities. The planning and reporting processes and

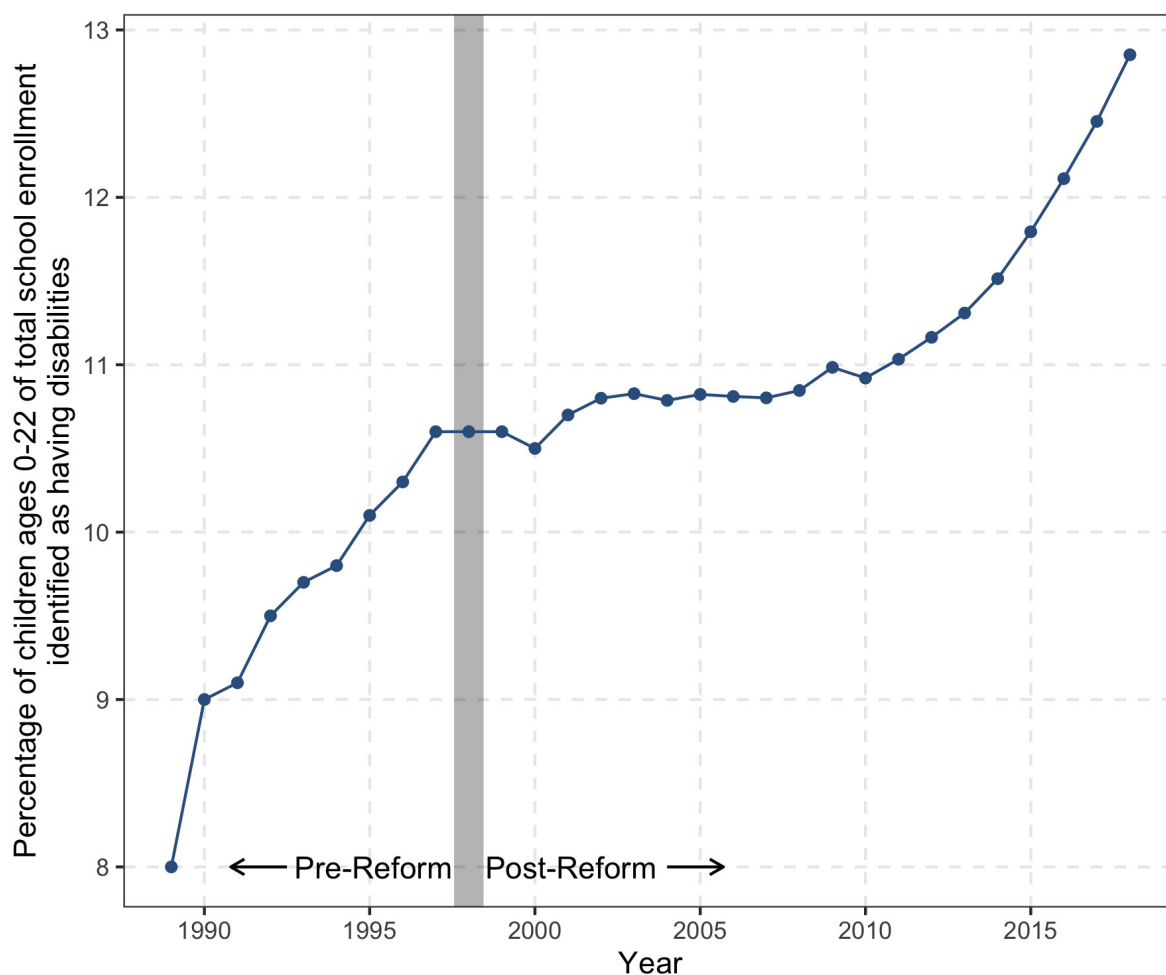
governance structure for special education are also different and separate from those used for general education. Although students with lower-incidence disabilities can benefit from economies of scale created by regional entities, the majority of students with disabilities (almost 57 percent) are taught in general education

classrooms for at least 80 percent of the school day, reflecting the importance of coordinating general education and special education programs and systems.

The immediate stabilization of identification rates for students with disabilities under AB 602 did not produce the policies' intended outcomes, which included long-term stabilization of identification rates and long-term containment of costs. To reduce complexity and eliminate any incentives in

the funding formula to overidentify students with disabilities, in 1998 California switched from a funding model, J-50, that allocated funding based on services provided to and placements of students with disabilities, to AB 602, a funding model that allocated funds based on overall attendance of all students. Following the 1998 shift to AB 602, California's statewide disability identification rate stabilized for about a decade. However, since 2010, identification rates have again climbed steeply.

Figure E-6. California identification rates prior to and after the shift to AB 602



Data from Kwak (2010) and from DataQuest Enrollment Data, 2002/03 through 2018/19 (CDE, n.d.).

California’s special education funding allocation approach is not purely census-based. Although California’s AB 602 base funding is calculated using attendance rates for all students, the formula allocates varying amounts of per-student funding for each special education local plan area (SELPA), based on varying historical SELPA costs for services provided under J-50. In 2019/20, per-student funding ranged from \$557 to more than \$900 per student, due to rates determined using the J-50 formula (CDE, 2020d). The state also allocates supplementary funding streams based on counts of students in specific disability categories (low-incidence funding) and students in more restrictive settings (out-of-home care funding and high-cost pools). Although some argue that systems differentiating funding based on need incentivizes overidentification, systems that do not differentiate funding based on the number of students with disabilities or their education needs offer a different fiscal incentive. In the latter type of system, LEAs have a fiscal incentive to find as few students eligible for special education as possible and to place those who are identified into the least costly placements (Dhuey & Lipscomb, 2013).

California distributes special education funding through SELPAs, giving the state relatively little influence over the amounts of funding received by most LEAs — specifically, members of multi-LEA SELPAs (representing more than 95 percent of LEAs), including charter LEAs. Primarily composed of local LEA superintendents, each multi-LEA SELPA’s governing board establishes its own unique funding formula to allocate and distribute the funding it receives from the state to member LEAs

in the SELPA based on local needs. Consequently, in California’s current system, any change in how the state determines allocations of funds to LEAs may not directly influence how funds flow to LEAs unless changes are also made in how those funds are distributed by the state or in the requirements for how multi-LEA SELPA governing boards allocate and distribute funds.

California’s approach to distributing special education funds exclusively to and through SELPAs is uncommon. More frequently, LEA membership in a regional entity or education service agency (ESA) is voluntary, and state special education funds are distributed directly to LEAs. Many states align the distribution of funds and responsibility for meeting the Individuals with Disabilities Education Act (IDEA) requirements; that is, they distribute funds to the entities that are held responsible for fulfilling IDEA requirements. In one other state where ESAs do receive funds directly — Michigan — the ESAs are also solely responsible for the fiscal and programmatic requirements of IDEA and have taxing authority for the regions where they are located.

In California, it is unclear which of the many entities with responsibilities for special education are legally responsible for special education. California’s education code does not clearly delineate special education responsibilities among the California Department of Education (CDE), county offices of education, SELPAs, and LEAs.

California’s statewide high-cost pools to support LEAs that have high-cost special education students are among the lowest-funded pools in the nation. California funds

its total high-cost pool (available through its two statewide pools) at \$9 per student with a disability. New York and Pennsylvania invest \$2,278 and \$37 per student with a disability, respectively. In California, SELPA directors reported that the benefit of having the state high-cost pools is outweighed by the paperwork requirements for requesting reimbursement, especially given the low amount of reimbursement compared with program costs.

Role of Multi-LEA SELPAs in California Special Education Funding

More than 90 percent of California LEAs, including all charter LEAs, belong to a multi-LEA SELPA. Multi-LEA SELPAs are intended to ensure that smaller LEAs have sufficient resources to meet programmatic requirements by pooling resources for multiple LEAs to create economies of scale. SELPAs are responsible for coordinating regional special education programs and services and for allocating, distributing, and determining expected expenditures for funding to LEAs.

Multi-LEA SELPAs serve as an extension of the CDE (e.g., for data collection and oversight) and also of LEAs (e.g., for coordinating resources for, and sometimes directly providing, special education programs). Despite having responsibilities similar to both the state and LEAs, multi-LEA SELPAs do not have the same external accountability structures as either an LEA or the state.

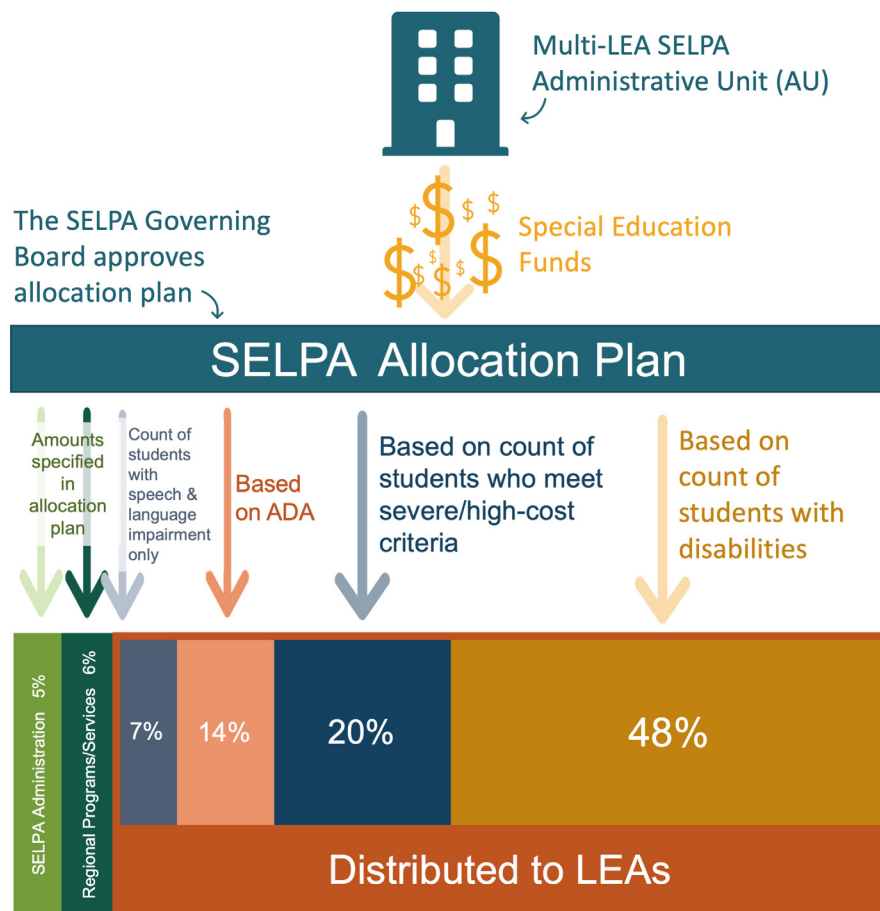
SELPA governing boards determine how funds are allocated for, distributed to, and expended by LEAs. After state funds are distributed to a SELPA, the SELPA's governing board, made up primarily of member LEA superintendents

Many multi-LEA SELPAs offer high-cost or risk pools, some with purposes similar to the state's high-cost pools. Although the state has two high-cost pools, one of which is available only to small SELPAs, many multi-LEA SELPAs report administering their own high-cost pools.

or their designees, allocates state funding to member LEAs, using the SELPA's allocation plan. These governing boards have wide latitude on whether and how to allocate and distribute funds to member LEAs and can change the state's funding formula (e.g., by using the actual count of students rather than ADA to allocate funds to LEAs, or by holding funds from LEAs to provide specific services). The intermediary role of SELPA governing boards in making funding decisions for their member LEAs could potentially make it challenging for the state to communicate programmatic priorities to its LEAs through its own allocation, distribution, and expected expenditures.

Funds are allocated by multi-LEA SELPA governing boards based on SELPA and LEA member needs and priorities, using myriad formulas, including many types of student weights. Consistent with the degree of autonomy these boards have, the study team found wide variation in SELPAs' funding formulas. The particular combination of approaches differs by SELPA and, in some instances, differs by funding stream (e.g., out-of-home care funds) within a given SELPA.

Figure E-7. An example of a multi-LEA SELPA's special education funding formula



Note. Data from an individual SELPA allocation plan.

SELPA allocation plan reporting is complex and nonstandard, resulting in an inability to connect policy intention and the allocation and distribution of resources at the local level. Although some plans describe the SELPA's current funding system in detail (e.g., providing the percentage of AB 602 base funds used to fund SELPA

administrative costs) and connect funding decisions to student needs, others provide no details as to how decisions were made about the amount of funding distributed or the methods used to calculate amounts for each LEA. However, the state has since taken steps to address the lack of consistent, clear reporting on how multi-LEA SELPAs allocate and distribute funding.

Conclusion

Findings from this descriptive study and a review of current research on state special education funding systems suggest that there are implications for California’s funding system for students with disabilities. In the next part of this study, the WestEd study team will use the framework for education funding policymaking and key findings from this report to detail those implications and provide a series of options to continue to refine and improve the California funding systems for students with disabilities. The options will be supported by primary research, extant research on state special education funding systems, and documentation of the potential benefits and drawbacks.

The presentation of these options will be done in the context of the current economic and fiscal realities of California brought on by the COVID-19 pandemic. To do so, the options presented will include considerations for changes that do and do not require additional investments in funding. The next report will also look at how these changes — across the components of the education funding policymaking framework — may be implemented over different periods of time.

The implications and recommendations report may include the following options:

Allocation

- Recommendations for allocating additional, supplemental one-time or ongoing funding that is differentiated based on student needs, including special education need and/or other need (e.g., socioeconomically disadvantaged students, English learners)
- Recommendations for adjusting future base allocations in addition to equalizing the base per-child amount

Distribution

- For supplemental one-time and ongoing funds, considerations for whether all or some funds should be distributed to different combinations of regional and local entities

Expected Expenditure

- Strengthening existing or developing additional mechanisms, such as high-cost pools and supplemental funding streams, to create economies of scale for high-need special education students and high-cost programs
- Modifying some or all of the rules around limitations on special education spending to further encourage planning with general education

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