

California State Special Education Funding System Study, Part 2: Executive Summary

FINDINGS, IMPLICATIONS, AND CONSIDERATIONS
FOR IMPROVING SPECIAL EDUCATION FUNDING
IN CALIFORNIA

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This paper builds on decades of prior work by policymakers, practitioners, and researchers who also sought to understand and improve California's special education finance system.

We thank members of the study's technical advisory committee, who contributed hours of volunteer work to advise our research team and provide input on the design and implementation of the study. The technical advisory committee included representatives from the California Department of Education; the California State Board of Education; the California Department of Finance; the California Legislative Analyst's Office; El Dorado County Office of Education; Garden Grove Unified School District; the Humboldt County Office of Education; the Santa Clara County Office of Education; Policy Analysis for California Education; School Business Solutions, LLC; and the Stanford Center for Education Policy Analysis.

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

More than \$12 billion in state, federal, and local funds is spent each year to provide special education and related services to California's approximately 725,000 students with disabilities, nearly 12 percent of the California K–12 population (California Department of Education [CDE], n.d.). The federal government provides approximately 10 percent of that funding, for implementation of the Individuals with Disabilities Education Act (IDEA), and the state provides another 30 percent, leaving 60 percent of special education costs to be covered by local education agencies (LEAs), which include California school districts and charter schools. Given the special education funding load that falls to LEAs and the inclusion of students with disabilities in the accountability systems under the Local Control Funding Formula (LCFF), along with the overlapping nature of how students fall into different categories (e.g., a student can be designated as an English learner and also identified for special education), studying the separate special education funding system became imperative. California policymakers and education stakeholders recognized the need to more deeply examine and suggest considerations for improving the special education funding system, which allocates, distributes, and sets spending expectations for state special education dollars. Special education funding in California, one of the few funding streams not included in the reform that led to the LCFF, had not undergone substantive review or changes since 1998.

This study of California's special education funding system was done in two parts. Part 1, whose report was published in 2020 (Willis et al.), provided a comprehensive descriptive review of the current funding system. Part 2, detailed in this report, consisted of in-depth quantitative analyses of state data from 2016/17, 2017/18, and 2018/19 and an exploration of the implications of those statistical findings, culminating in a series of evidence-based considerations for improving California's system for special education funding. The considerations for change presented in this report draw from the findings of both parts of the study to inform state-level decision-making focused on creating a more effective special education funding system — one that provides the *right amount* of funding to the *right agencies* so that they can provide the *right services* to the *right students*.

This Executive Summary provides the major findings of the investigation into improving the special education funding system, followed by considerations for improving the state's special education funding system. Both the findings and the considerations are further detailed in the full report. The full report also includes a glossary of terms that will aid the reader in understanding the study results and considerations for change.

Study Results and Their Implications for California’s Special Education Funding System

Findings are organized by three funding system components: *allocation* (how the state calculates amounts of funding needed for special education); *distribution* (which entity receives funding); and *expected expenditure* (how funds are used).

Findings Related to the Allocation of Special Education Funding

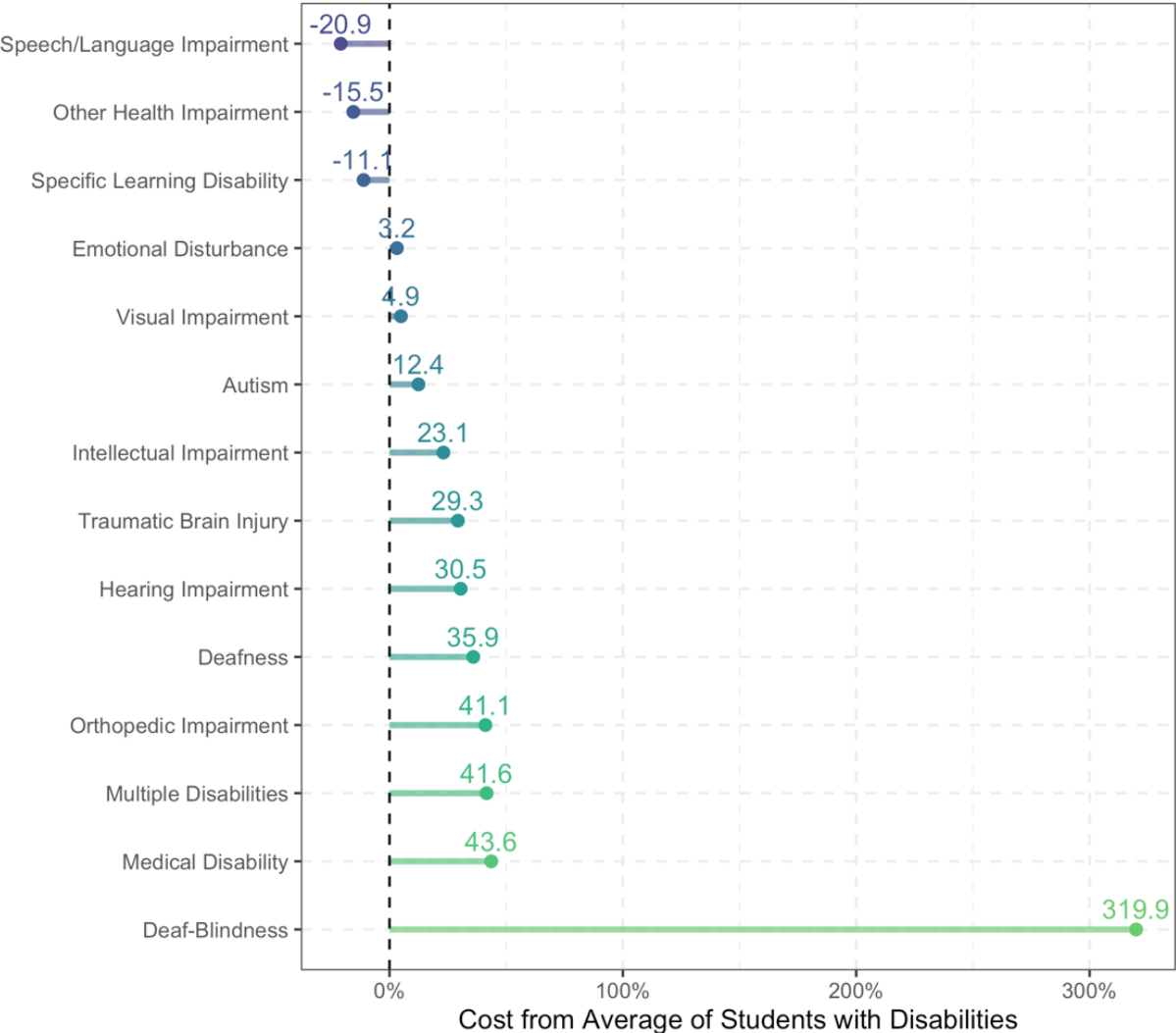
There was a positive correlation between cost and academic growth for all California students, including students with disabilities and other student groups. An increase in education program funding at the school level resulted in an increase in the rate of growth on English language arts and math assessments. This evidence justifies the allocation of additional funds to specific student populations with the intent of improving academic outcomes and closing opportunity and achievement gaps (Johnson & Tanner, 2018).

It cost, on average, 50.5 percent more to ensure that students with disabilities achieved the same academic growth as their peers without disabilities. This is an initial estimate of the amount of *supplemental* funding needed — that is, *on top of* the per-pupil general education base that applies to all students — to ensure that students with disabilities, on average, demonstrate academic progress comparable with that of their peers without disabilities. This additional 50.5 percent does not account for any special education costs associated with helping students attain any nonacademic goals identified in their individual education plans (IEPs) or costs associated with school-size variation, regional cost differences, and nonpublic school (NPS) placements.

For students with disabilities who also had other needs — specifically, those who were also English learners and/or economically disadvantaged — the additional (marginal) cost to ensure comparable academic growth increased. Over the years of this study, 85 percent of students with disabilities were also in at least one other high-need category (i.e., English learner, economically disadvantaged), with some students in both groups (Willis et al., 2020, p. 17). The average additional cost of programs for students with disabilities related not only to students’ disabilities, but also to other student needs. An ideal funding system would facilitate schools’ ability to address students’ multiple needs in a coordinated manner. Having such a system would require a change from the state’s current funding approach, which, as described in part 1 of the study (Willis et al., 2020), features separate, but parallel funding systems for special education and general education.

The additional cost of special education related to academic growth varied by students’ primary disability category. For students in some disability categories, the average additional costs were lower than the average for all students with disabilities, and for students in other categories, costs were higher. For example, as illustrated in exhibit E-1, the average additional per-student cost for the Speech or Language Impairment category was 20.9 percent less than the cross-category average, whereas for the Orthopedic Impairment category, the average additional cost was 41.1 percent greater.

Exhibit E-1. Percentage difference in cost compared with the average cross-category cost of special education, by federal disability category.



Source. Authors’ calculations from the education cost function.

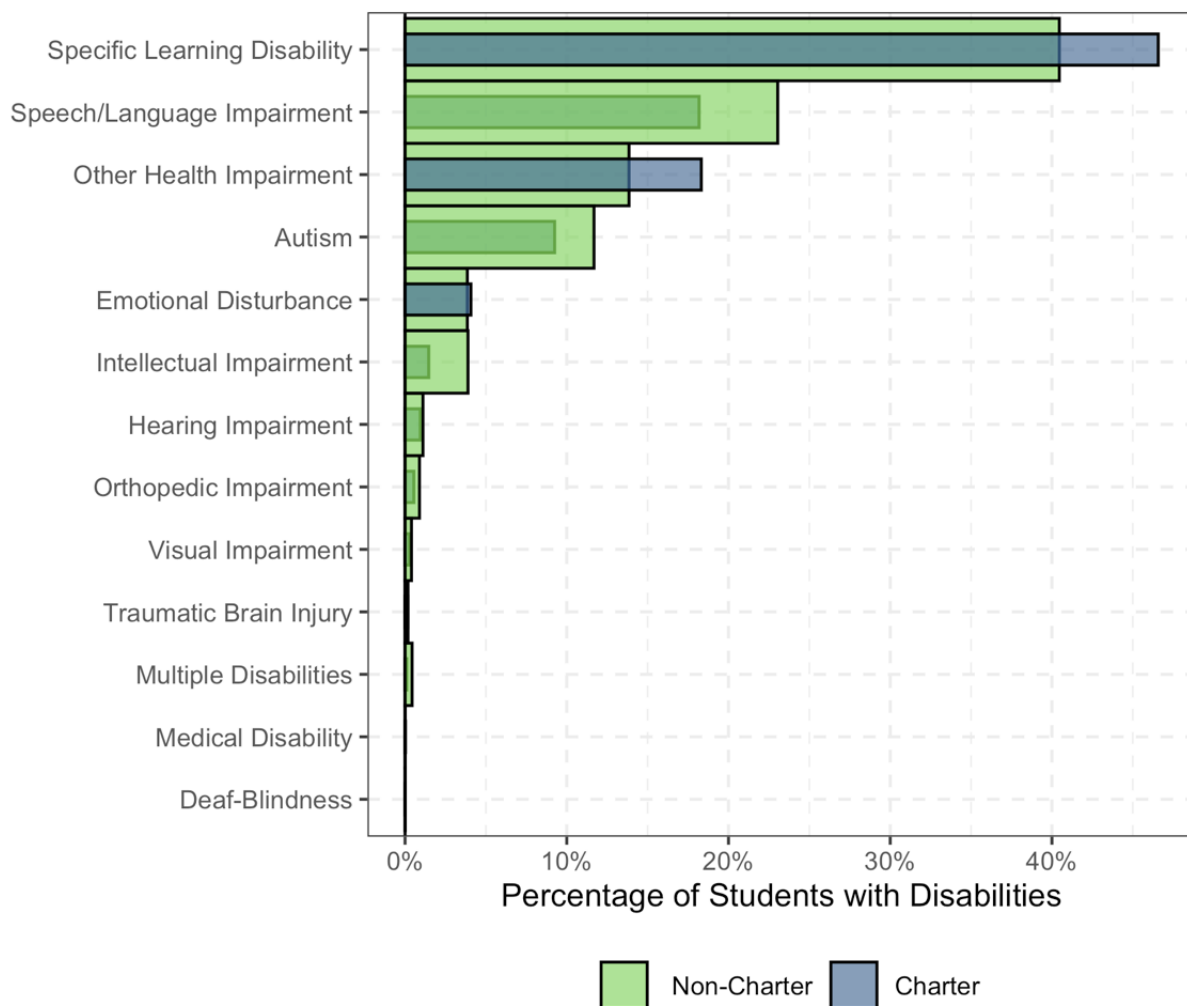
The average per-student spending on special education reported by LEAs in 2018/19 was \$17,372, resulting in total costs per student of \$28,016 when added to an average \$10,644 per-student base cost for general education programs. The \$17,372 includes the marginal cost of ensuring comparable academic growth (50.5 percent of the base, or approximately \$5,375), additional costs attributable to school

and LEA variables, and additional costs related to students’ attainment of nonacademic outcomes. This finding is consistent with the findings of a 2019 Legislative Analyst’s Office report (LAO) on special education costs that concluded that “students with disabilities cost, on average, more than two times as much to educate (\$27,000) as students without disabilities (\$10,000)” (Petek, p.17).

The cost of special education related to academic growth for students with disabilities was, on average, lower in charter schools than in non-charter schools due, in part, to the particular populations of students with disabilities that charter schools tended to serve. The difference in per-student cost was largely attributable to the fact that, according to 2018/19 California data, the populations of students with disabilities that charter schools

served were generally identified as being in higher-incidence disability categories, which have lower associated costs compared with other disability categories (see exhibit E-2). In addition, on average, students with disabilities accounted for a smaller proportion of the overall student populations in charter schools compared to non-charter schools: 9.4 percent and 10.7 percent, respectively (Willis et al., 2020, p. 26).

Exhibit E-2. Proportion of students with disabilities served by charter and non-charter schools, by disability category.



Source. Data from the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Student Management Information System (CASEMIS), 2018/19.

Findings Related to Distribution

Up to an ideal size, increased overall enrollment in an LEA or other education entity correlated with economies of scale that reduced the per-student cost of serving students with disabilities. Regionalization can improve students' access to some type of services and reduce their cost through economies of scale. As the size of a school or regional entity increased up to an ideal point, the per-student cost decreased. However, past the ideal size for an entity, per-student costs began to grow, creating diseconomies of scale and adding cost. The ideal total enrollment in a multi-LEA Special Education Local Plan Area (SELPA) or a county office of education (COE) to produce the lowest per-student cost is approximately 40,000 students. The ideal size for an LEA (excluding charter school LEAs due to their small size) is a total enrollment of approximately 30,000 for elementary and unified LEAs and approximately 20,000 for high school LEAs. In 2018/19, 56 (60 percent) of California's 94 multi-LEA SELPAs were below this ideal enrollment threshold and only 1 elementary school LEA, 7 high school LEAs, and 24 unified LEAs from among California's more than 1,000 school district LEAs met or exceeded the enrollment thresholds for optimizing their economies of scale.

Despite not reaching the ideal enrollment size to maximize economies of scale, LEAs worked together, including within and across SELPAs, to achieve some economies of scale in order to serve students with disabilities more cost effectively. Special education services were regionalized not just through the work of multi-LEA SELPAs, but through partnerships — including LEAs contracting directly with each other and/or with COEs.

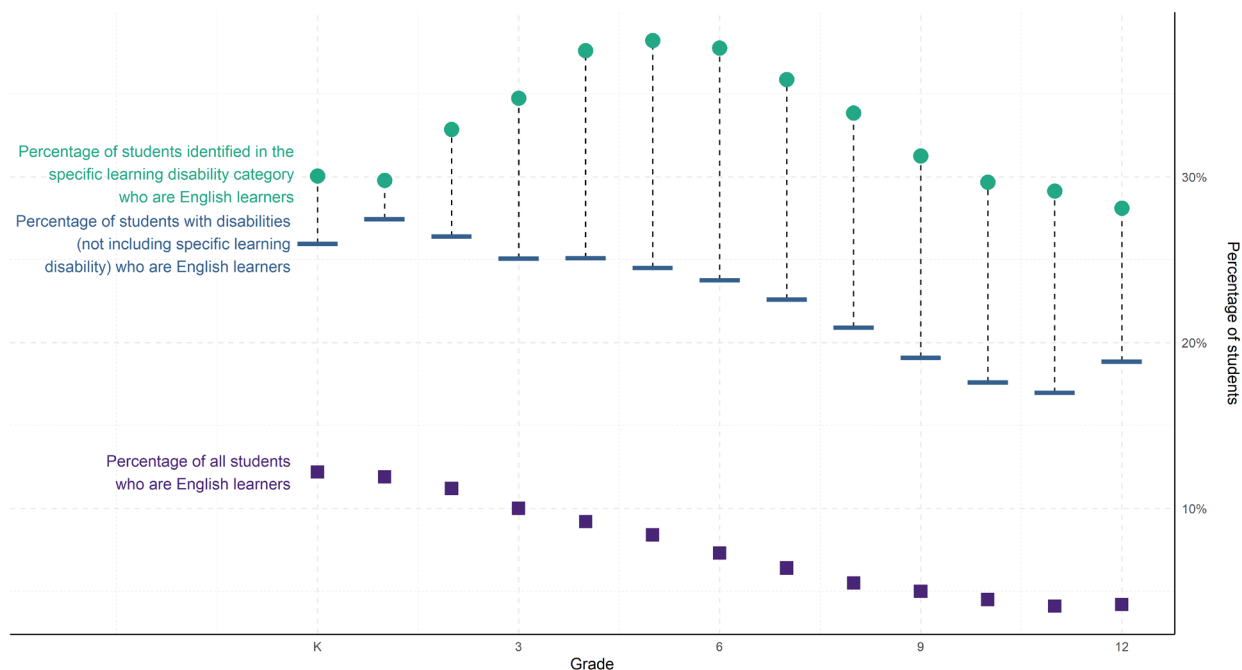
Most educationally related mental health services were provided by LEAs even though funds to pay for them are allocated to SELPAs. Beginning with the fiscal year 2020 budget cycle, Educationally Related Mental Health Services (ERMHS) funding could be used for mental health services whether they were provided for students with disabilities through an IEP or for students without disabilities. Eighty-four percent of mental health services for students with disabilities were provided by students' LEAs, 7 percent by NPS providers, and 9 percent by other LEAs or by SELPAs. There may be additional opportunities for coordination and possible cost savings at the LEA level between ERMHS and other LEA-level resources.

Findings Related to Expected Expenditures

Students who were English learners were disproportionately identified for special education. Specifically, English learners with disabilities who were Hispanic and Spanish-speaking were the most likely students in California elementary schools to be found eligible for special education and identified for the Specific Learning Disability category. The disproportionate identification of English learners as having disabilities — particularly in

the Specific Learning Disability, possibly due to the challenges of learning English being mistakenly identified as resulting from a learning disability — suggests the importance of having sufficient funding flexibility and coordinated planning to meet the unique needs of these students without having to categorize them as having a disability. Exhibit E-3 illustrates the identification trends and overidentification for special education and the Specific Learning Disability category.

Exhibit E-3. Proportion of California public school students in general, students eligible for special education, and students identified in the Specific Learning Disability category, who were English learners, by grade.



Source. Data from CASEMIS and CALPADS, 2018/19.

Funding to support students who both had disabilities and were English learners was distributed separately, to different agencies (SELPA for students with disabilities and LEAs for English learners). *There is a need for stronger coordination of services for these students.* Early and accurate identification of English learners' needs, before students have been identified for special education, is essential. It may be a more efficient use of general education resources to provide this population with additional early supports rather than waiting until they are identified for special education services.

Providing preschool special education services in an inclusive setting benefits students with and without disabilities, with effective early childhood education reducing the likelihood of students' identification for special education (Diamond, 2001; Odom et al., 2004; Kwon et al., 2011; Yu et al., 2012). Students with disabilities who participate in inclusive preschool and kindergarten are more likely to be in inclusive settings later in elementary school (Guralnick et al., 2008). The distribution of some potential funds for inclusive preschool (e.g., AB 602, IDEA) to SELPAs and other funds (e.g., the Inclusive Early Education Expansion Program, recent Special Education Early Intervention grants) to LEAs may be one of the factors contributing to a lack of inclusive settings.

Nonpublic school placements for students with disabilities were more expensive and also resulted in students achieving less academic growth compared with their peers with disabilities in public placements. The cost of implementing a student’s IEP in a nonpublic school (NPS) placement averaged 24 percent more than implementing a student’s IEP in any other potential placement. The use of expensive NPS placements is especially concerning given that additional analyses showed relatively lower academic growth for students in NPS settings, with a consistent difference of 5 to 6 percentage points between NPS and public placements through the 2016/17, 2017/18, and 2018/19 school years. This finding supports the need to further study the cost and other implications of the placement of students in NPS settings, as prioritized in the California Budget Act of 2021.

White students with disabilities were more likely than their peers in other racial/ethnic groups to be placed in an NPS setting.

Compared with students of other races or ethnicities, White students were more likely to

be placed in NPS settings, including students in high-incidence disability categories that typically do not require intensive services or restrictive settings, such as Speech Language Impairment and Specific Learning Disability. These patterns are not unique to California and raised questions about whether some NPS placement decisions have less to do with student need and more to do with, for example, parent advocacy skills.

Only LEAs whose students received their education in NPS placements could benefit from California’s extraordinary cost pools; these LEAs may have benefited from the pools even if those students could have been served better or as effectively in a less restrictive setting. The state may be inadvertently incentivizing more restrictive settings through its regulations for current extraordinary cost pools, together with its provision of additional funds for out-of-home placements. Limited due to underfunding, these funds have only been available to reimburse LEAs or SELPAs for costs associated with placement in NPS settings, which represent the most restrictive settings as defined by IDEA.

Considerations for Improving California’s Special Education Funding System

Based on findings from both the descriptive (Willis et al., 2020) and the analytic parts of this study of California’s state special education funding system, this report provides considerations for how the current funding system might be changed. Considerations are organized by state priorities for special education: ensuring that state funds will reach students with the greatest need; prioritizing appropriate early

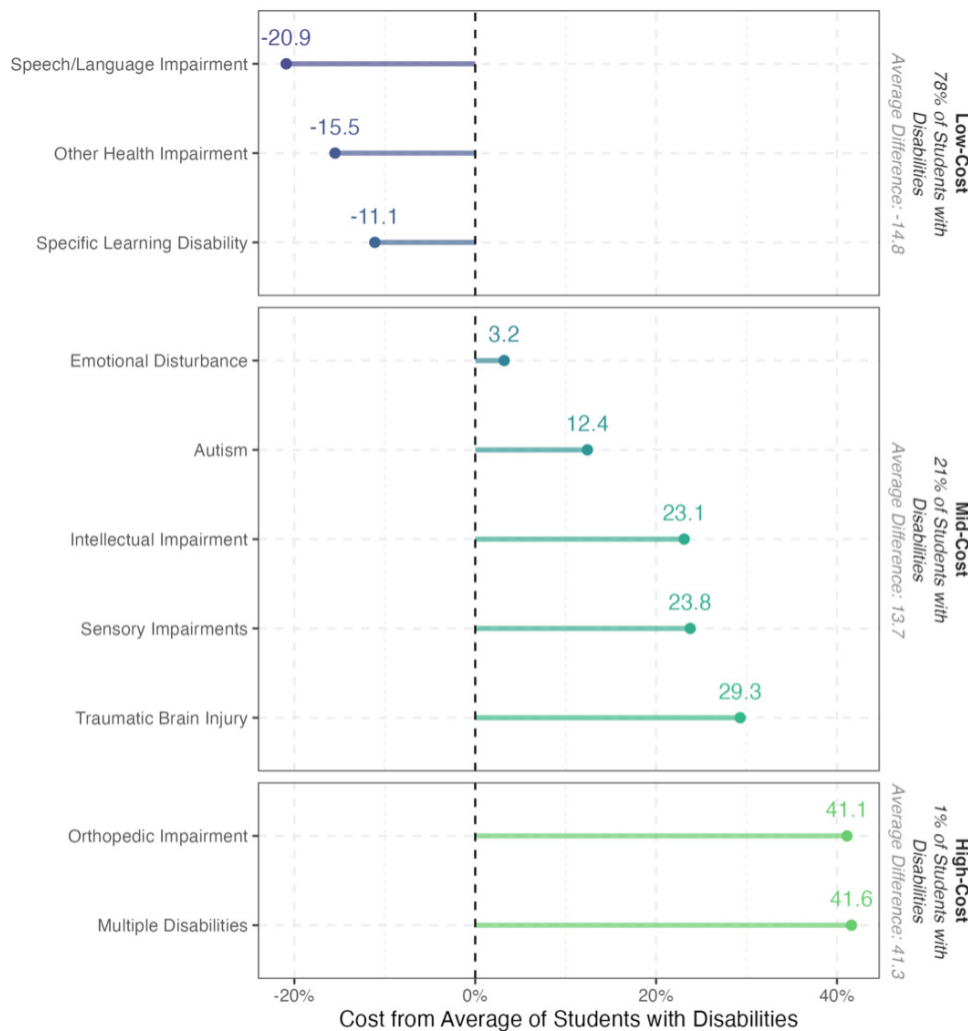
intervention and identification; and promoting inclusive practices. Considerations are provided for three implementation timeframes — long term, near term, and immediate — with the long term changes collectively comprising the ideal funding system. The full report includes additional, related considerations, with summaries of feedback from a cross-section of education groups and leaders on what they see as potential benefits and drawbacks of each consideration.

Considerations Related to Ensuring Funds Reach the Students With the Greatest Needs

Long term: Allocate base state special education funding using the count of students with disabilities from the prior year, weighted by the proportion of students in each of three primary disability category cost groupings (i.e., high, mid, and low) over the prior three years.

To align the allocation more closely to the actual costs of programs that support academic growth for students with disabilities comparable with the growth of their peers without disabilities, allocate state special education funding based on the actual count of students with disabilities, rather than on a census count, in three cost groupings: low, mid, and high (see exhibit E-4).

Exhibit E-4. Percentage difference in cost from the average additional cost for programs for all students with disabilities, by disability category and cost groupings.



Source. Authors' calculations from the education cost function. Note that Sensory Impairments includes Visual Impairment, Hearing Impairment, Deafness, and Deaf-Blindness. The Multiple Disabilities category includes Medical Disability.

Near term: Allocate base state special education funding using the count of students with disabilities. There are limitations to the use of disability categories as a proxy for student need and program cost. So as an interim step, allocate funds using a statewide average per-student rate calculated by applying the current per-student rates to the prior year's count of students with disabilities.

Near term: Develop a more precise measure of cost and need using additional IEP data. A more precise measure by disability category or other groupings, specific to California, would be beneficial in future decisions about allocation of resources on the basis of student characteristics, assuming subsequent investigations were to have access to more robust data. Access to more robust data might require the state to establish indicators of student need and experience that would be commonly collected through the entry of IEP data into the statewide student information system.

Long term: Establish and sufficiently fund a single state-level extraordinary cost pool to provide funds for the most expensive IEPs, even when such programs are provided within an LEA (rather than in an NPS placement).

Establish a single new extraordinary cost pool that consolidates funds from two existing pools and from two additional AB 602 funding streams (Low-Incidence Disabilities and Out-of-Home Care). The new cost pool should ultimately be funded with at least \$348 million, with the state augmenting that initial funding as student need grows, but it could be funded at \$266 million by combining current funding for the current pools with funding for low-incidence disabilities and out of home placements, funding streams that currently support students who would likely be eligible for extraordinary cost pool funding. To remove the potential incentive for LEAs and SELPAs to make NPS placements, these entities would need to be able to request reimbursement from the new pool for public placements, with the elimination of current restrictions that allow reimbursements only for NPS placements, including placements in licensed children's institutions (LCIs).

Immediate: Combine the Extraordinary Cost Pool for NPS/LCI with the Necessary Small SELPAs Mental Health Service Extraordinary Cost Pool and revise extraordinary cost pool eligibility rules to provide funding for LEAs that serve students needing out-of-home placements in their local community.

Immediate: Broaden the definition of "low-incidence" disabilities and, thus, access to Low-Incidence Disabilities funds. Expand the California Education Code Section 56026.5's definition of low-incidence disabilities, currently "hearing impairments, vision impairments, severe orthopedic impairments, or any combination thereof," to also include students classified in Medical Disability and Multiple Disabilities disability categories identified by the education cost function as having the highest-cost programs.

Near term, using one-time funding: Study the current use of all supplemental AB 602 funds for NPS placements and study mechanisms for LEAs to provide similar supports and services in more inclusive settings. Not only are such settings the most restrictive, as defined by IDEA, but also, this study found them to be the costliest while also resulting in poorer academic outcomes for students.

Considerations Related to Prioritizing Appropriate Early Intervention and Identification

Long term: Use one-time and ongoing funds to invest in preparation of special education personnel for early childhood and K-12. As in IDEA, include funds to universities and LEAs for pre- and in-service preparation of an expert special education workforce in annual special education allocations. Such expenditures would be consistent with the body of research cited in the full report and would reflect state priorities by allowing the development and hiring of additional qualified staff.

Immediate: Continue investments in service scholarships, classified staff supports, and teacher residencies for preparing transitional kindergarten (TK)-12 special education teachers to stem the teacher shortage, and include early childhood professionals in these programs.

Immediate: Through the California Commission on Teacher Credentialing

(CTC), invest in developing and expanding programs for the preparation and credentialing of special education teachers in early childhood and TK-12 to meet the state's new credentialing requirements.

Immediate: Allow the state's current Low-Incidence Disabilities funds to be used for inclusive preschool programs that include students with low-incidence disabilities, other students with disabilities, and students without disabilities.

Immediate: Build the expertise of existing CDE special education and federal program staff to provide LEAs with guidance on allowable braiding and blending funding strategies, incidental benefit, and the allowability of using special education funds, including AB 602 base funds and Low-Incidence Disabilities funds, to support inclusive preschools.

Considerations Related to Promoting Inclusive Practices

Long term: Transition over time from distributing state special education funds exclusively to SELPAs to distributing them to LEAs, which could then, at their discretion, provide funds to a regional entity (e.g., COEs, SELPAs) for regional services. Special education programs, supported in part by AB 602 funds, are intended to ensure that students with disabilities gain access to and make progress in the general education curriculum. Because most students with disabilities spend most of their school day in general education programs, they could benefit from coordination of services between general and special education. Such coordination could be optimized by distribution of AB 602 funds directly to LEAs, allowing LEA leaders to make decisions about how best to use the funds for coordination purposes.

Near term: Distribute funds allocated by counts of students in the low- and mid-cost disability categories directly to LEAs to promote service coordination for those students, most of whom are included in the general education classroom for 80 percent or more of the day. For students in high-cost categories, in which the need for a regional service or program is more likely, especially for small LEAs, funding could go to the regional entity.

Near term: Clarify SELPA governing boards' authority to allocate and distribute state special education funding using a funding formula different from the state's formula. Whether or not the state implements other considerations from this report, it should clarify whether SELPA governing boards have broad authority to use funding formulas that are different from the state's formula for allocating special education funding.

Long term: Continue providing ERMHS funds to pay for services for students both with and without IEPs, potentially by allowing flexible use of a portion of base funds. The amount of ERMHS funds provided should continue to be based on average daily attendance in order to communicate to LEAs that the funding is available to serve students irrespective of whether they have been identified as having a disability, to promote better mental health for all students.

Immediate: Allow ERMHS funds to be used for development of school-based health centers and other health-focused infrastructure, including partnerships with other agencies, such as county behavioral health agencies and Medi-Cal managed care plans.

Immediate: Allocate and distribute ERMHS funds directly to each LEA (including charter school LEAs) rather than to SELPAs. Providing funds directly to LEAs can support local partnerships and may encourage LEAs to establish or enhance their match for federal drawdown programs, enabling LEAs to receive additional federal funds.

Long term: Given the number of students with disabilities who have needs beyond those related solely to their disabilities, encourage LEAs to create a single system for planning and coordinating funding and programs. Separate funding streams distributed to separate programs and agencies (in the case of special education) do not encourage having a single system for planning and coordination of interventions. Although state and federal special education funds are restricted to specific uses, the majority of funds required to operate special education programs are local funds, allocated from each LEA's general fund, and it is important for LEAs to have one system for planning and coordination. To encourage LEAs to create a single system for planning and coordinating funding and programs, CDE could model inclusive planning across programs by issuing joint guidance on practical ways for LEAs to establish one system for planning and coordination.

The right of students with disabilities to receive the services identified in their IEPs is protected by federal law (IDEA), and that protection is, in part, guaranteed through the maintenance of effort and excess cost fiscal requirements.

Coordinating funding and services should not impede an LEA's ability to meet these requirements because funds that are used to provide coordinated special education services may still be counted as funds budgeted and expended to provide special education and related services.

Immediate: Ensure that existing planning and reporting requirements encourage coordinated LEA planning between special education and general education. CDE should consider recommendations from the forthcoming special education governance and accountability study, required by the 2020 budget bill, for increasing alignment between general education and special education.

Near term: Ensure that California's statewide system of support identifies and promotes best practices related to coordinating instructional supports for students in groups most likely to be misidentified or overidentified as having disabilities. Prioritize state funds available through the statewide system of support for development of coordinated planning. Highlight and promote best practices for coordinated planning and intervention through conferences, newsletters, and other media.

Conclusion

This study recommends revisions to California's special education funding system that would make it more responsive to California's increasing population of students with disabilities. The changes, collectively, would communicate and reinforce the importance of coordination between general education and special education to ensure inclusive practices that, ultimately, would both improve outcomes for students with disabilities and benefit their peers without disabilities.

Allocating base funds by student count and differentiating funding based on disability category may improve the alignment of funding with student needs. The state should also consider which additional student data it could collect statewide to enable the state to better differentiate funding based on student needs. For example, statewide data from student IEPs about the number and intensity of services or the gap between students' present levels of performance and grade level would provide additional indicators of student need by which funding could be differentiated. A sufficiently funded extraordinary cost pool available to students placed in their LEA of residence or a neighboring LEA as well as students in NPS placements supplements the differentiated base allocation of funds.

To communicate the messages of prioritizing inclusive practices and supporting students with diverse needs across programs, this study recommends distributing special education funds to LEAs, which may then, as needed, enter into agreements with other entities to provide regionalized services. This proposed change ultimately aligns with the accountability placed on LEAs by the LCFF to ensure equitable, improved outcomes for all students, including students with disabilities. The need for some regionalized services and the potential for attaining economies of scale and, thus, cost reduction through their regionalization are clear. However, the locus for decision-making about the best way to provide services to students with disabilities should lie with the LEAs in order to maximize funding coordination.

Finally, prioritizing inclusive practices and ensuring improved learning experiences and outcomes for students with disabilities requires consistent reevaluation both of the funding and of the intervention systems. The funding system alone cannot bring forth necessary changes, but it can communicate the state's intent on ensuring that the *right amount* of funding goes to the *right agencies* so that they can provide the *right services* to the *right students*.

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