

California Special Education Funding System Study

A DESCRIPTIVE ANALYSIS OF
SPECIAL EDUCATION FUNDING
IN CALIFORNIA

**Jason Willis, Sara Menlove Doutre, Kelsey Krausen,
Tyson Barrett, Tye Ripma, and Ruthie Caparas**

October 2020

WestEd 



Contents

Acknowledgments	1
Authors' Note	2
Executive Summary	4
California's Students With Disabilities	5
Special Education Funding Policy	9
California's Special Education Funding System	9
Role of Multi-LEA SELPAs in California Special Education Funding	12
Conclusion	14
Introduction	15
Prior Reports on California's Special Education Funding System	16
Purpose of This Study	18
Study Design	19
Descriptive Analysis of Special Education Funding in California	19
Implications for and Modeling Refinements to the Funding System	19
Organization of this Report	20
Methods	21
Section 1: California's Students With Disabilities	22
Identification Rates	22
Demographics	22
Disability Type	25
Variation by Region	28
Inclusion Rates	30
Academic Performance	31
Section 2: Development of California's Special Education Funding System and Associated Outcomes	34
Development of California's Special Education Funding System	34
Special Education Funding Under J-50 (1980–1998)	34
Special Education Funding Under AB 602 (1998–Present)	36
Outcomes Associated With California's Special Education Funding System	36
Initial Shifts Associated With the Adoption of AB 602	36
Longer-Term Shifts Associated With AB 602	39

Section 3: Sources and Types of Funding for Special Education in California	40
Sources of Funding	40
Planning and Reporting for Different Sources of Funding	42
Types of Funding	42
AB 602	42
State High-Cost Pools	44
Additional Special Education Funding Streams Outside AB 602	46
Section 4: California’s Special Education Funding System	47
A Framework for Education Funding Policymaking	47
Funding Formula: Allocation, Distribution, and Expected Expenditures	49
Allocation	50
Determining the Year(s) of Data Used for Funding Formula Allocations	52
Adjustments Based on Student Characteristics and Other Factors	52
Distribution	54
Expected Expenditures	55
Required Expenditures	55
Restricted Expenditures	56
Visualizing an Education Funding Formula to Understand Policy Choices	57
The Funding System’s Governance	58
The Funding System’s External Accountability	60
Communicating State Priorities Through the Funding System	61
Section 5: Role of Multi-LEA SELPAs in the Special Education Funding System	63
SELPAs’ Special Education Plans	63
Funding Formula: Allocation, Distribution, and Expenditure Expectations	64
Allocation	64
Distribution	67
Priority Distributions: SELPA Administrative Costs	68
Priority Distributions: Regional Programs or Services	70
Priority Allotments: Cost Pools	70
Expected Expenditures	71
Examples of How Special Education Funding Formulas Vary by SELPA	72
SELPA Governance and Accountability	75
Fiscal Accountability	76
Economies of Scale and Regional Services	76

Report Conclusion and Implications for Future Study	79
Implications for Future Study	80
Allocation of Funds	81
Distribution of Funds	81
Expected Expenditures of Funds	81
References	82
Appendix A. Study Methods	87
Section 1	87
Section 2	87
Sections 4 and 5	88
Survey Methods	88
Multi-LEA SELPA Allocation Plan Analysis	89
Appendix B. State School-Age Special Education Funding Sources, Allocations, Distributions, Expenditures, and Amounts in 2018-19	90
Appendix C. Review of State High-Cost Pools	92
Appendix D. State Scan of Educational Service Agencies (ESAs)	98
Appendix E. Cost Pool Funds and Regional Services Reported by SELPAs	101
Appendix F. Excerpts From California Department of Education (CDE) Memo on History and Requirements of SELPAs	103
Special Education Local Plan Area Options for Charter Schools	103
Option 1: School of the District Status	103
District Responsibilities	103
Charter School Responsibilities	104
Option 2: Local Educational Agency Status for Purposes of Special Education	104
Charter Special Education Local Plan Areas	104
Appendix G. Interview Protocol: Leaders During the J-50 to AB 602 Transition	105

Acknowledgments

The research summarized in this paper was made possible by the generosity of the Stuart Foundation and the Dirk and Charlene Kabcenell Foundation. The WestEd research team is appreciative of their financial support and thought partnership on this project. This study was not conducted using state funds.

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 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.

Additional stakeholders contributed by reviewing and providing feedback on the draft report. We also thank Hillary Knudson, a graduate student intern from the Policy, Organization, and Leadership Studies master of arts program in the Graduate School of Education at Stanford University.

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.

Authors' Note

Although this study was published in October 2020, the study was initiated in June 2019. All data presented herein are from the 2018/19 school year unless otherwise stated, due to the availability of data when the study commenced. The report does reference amounts of funding for the 2019/20 school year, as those amounts were calculated prior to the start of the study.

Additionally, over the period of the time in which this study was conducted, California and the rest of the world entered into the COVID-19 pandemic, which altered every facet of our public education system from instructional delivery to the availability of resources. Despite this unprecedented event, California remained focused on changes to the state's special education funding system that build on prior policy and resource changes aimed at continuing to improve public education.

Given the available data at the commencement of the study and the unknown impact of the COVID-19 pandemic on newly available data for the 2019/20 school year, the study team was not able to evaluate the impact of the changes to the special education funding formula enacted by the California Budget Acts of 2019 and 2020, enumerated as follows. However, we felt it important to recognize the changes that may inform the considerations and implications resulting from this report.

Changes to California's special education funding system subsequent to, and therefore not examined in this descriptive study, include:

California Budget Act of 2019 (2019-20 State Budget, Enacted)

- Increased investment in special education by \$152.6 million to level the AB 602 base rate for SELPAs. With the additional investment, 73 percent of SELPAs received the statewide target rate of \$557 per average daily attendance (ADA), and the remaining 27 percent were held harmless at a higher rate.
- Created a one-time allocation of \$492.7 million in ongoing funds for special education, allocated based on the number of children aged 3–5 with exceptional needs that each school district is serving.
- Made a one-time allocation of \$500,000 to improve state agency coordination to increase local education agencies (LEAs)' ability to draw down federal funds for medically-related special education services and to improve the transition of three-year-olds with disabilities from regional centers to LEAs.
- Made a one-time allocation of \$1.2 million to the Test Development and Administration Account for the development of a Teacher Performance Assessment for candidates seeking a credential in special education.

- Invested \$5 million in Educator Workforce Investment Grants for professional development related to special education and inclusive practices for teachers and paraprofessionals.

California Budget Act of 2020 (2020-21 State Budget, Enacted)

- Increased the AB 602 base rate for SELPAs receiving less than the state average up to \$625 per ADA. Those receiving more than the state average will be held harmless at the higher rate.
- Increased the ongoing funds for special education services for students with low-incidence disabilities by \$100 million, from \$18 million to \$118 million, distributed to SELPAs based on ADA counts.
- Directed the use of funds provided to the California Department of Education (CDE) under Part B of the Individuals with Disabilities Education Act (IDEA) for state administration of special education and other activities:
 - \$15 million to support grants to special education teachers through the Golden State Teacher Grant Program
 - \$8.6 million to assist LEAs with developing regional alternative dispute resolution services and statewide mediation services
 - \$350,000 for a workgroup to design a state standardized individualized education program (IEP) template, and to develop and design an addendum to the state standardized template to address special education service delivery in a distance learning environment
 - \$500,000 for a study to examine special education governance and accountability
 - \$250,000 for a workgroup to examine and propose alternative pathways to a high school diploma for students with disabilities.

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.¹ 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. 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.

¹ For this report, unless otherwise specified, the term students with disabilities refers to students aged 3–21 with one or more of the disabilities identified under federal law and who because of their disability require special education and related services provided through an IEP (20 U.S. Code § 1401).

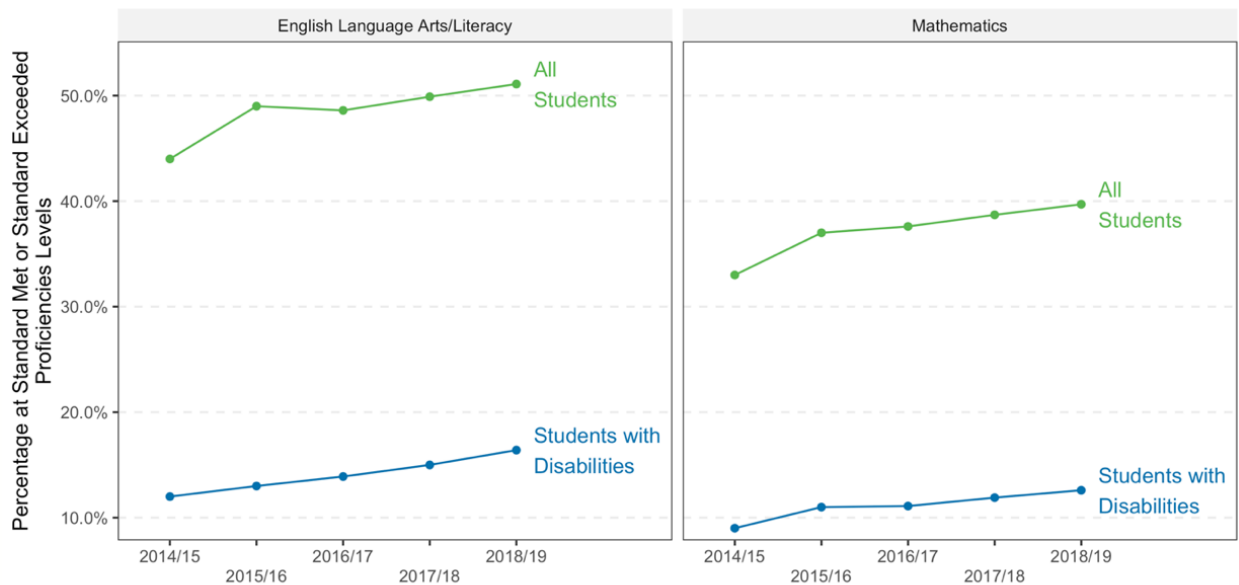
California's Students With Disabilities

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 Statewide Special Education Task Force, 2015).

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.

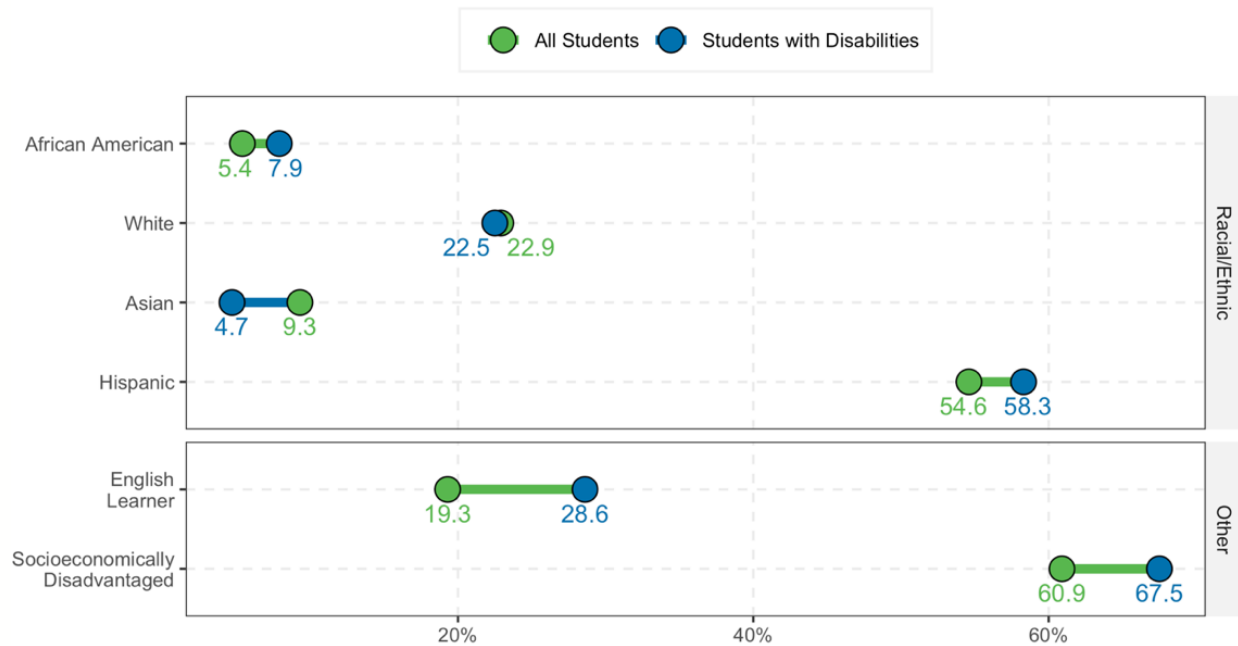
Figure E-1. Trend in achievement gaps for English language arts / literacy and mathematics across all grades between 2014/15 and 2018/19



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.

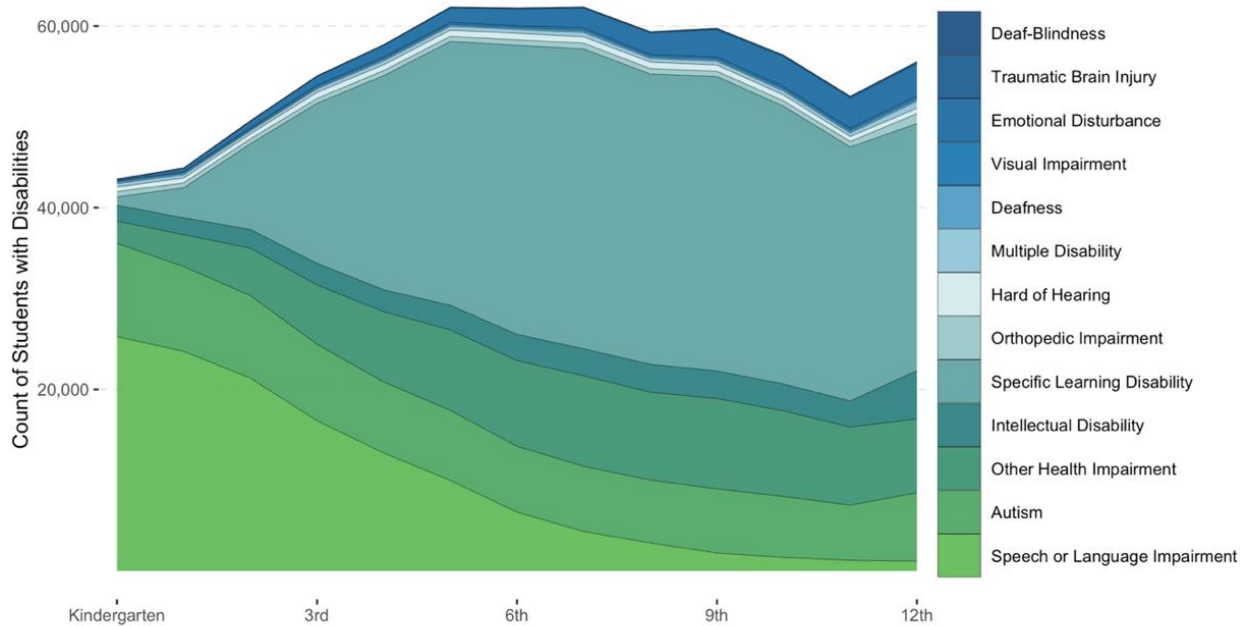
Figure E-2. Disproportionate identification of California students with disabilities (disproportionality), 2018/19 school year



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

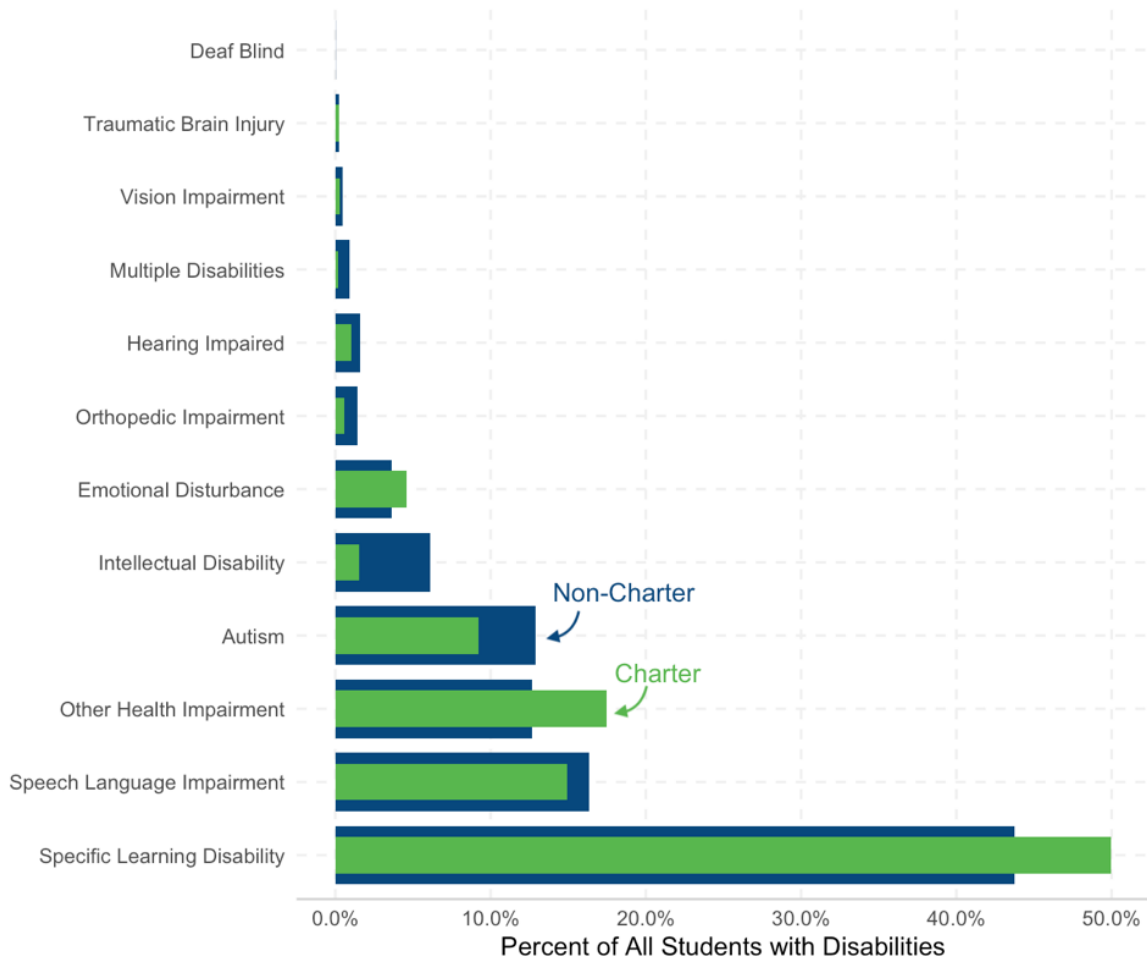


Note. Data from DataQuest 2018/19 Special education enrollment by age and disability statewide report (CDE, 2020a).

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

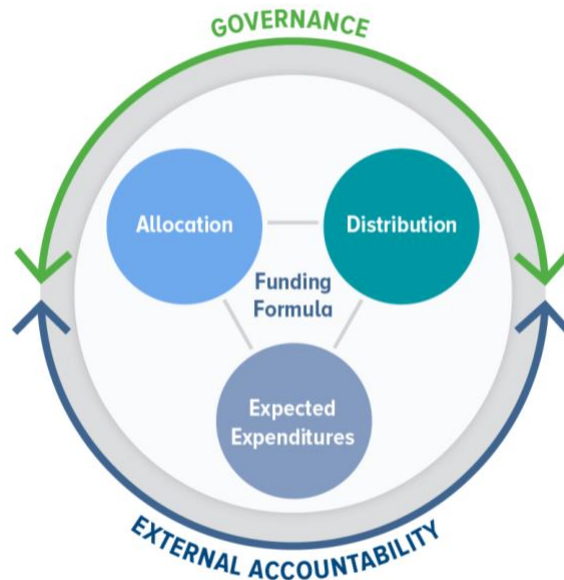


Note. Data from DataQuest 2018/19 Special education enrollment by age and disability statewide report (CDE, 2020a). Non-charter LEAs include charter schools that are schools of the LEA for purposes of special education. See appendix F for details on this distinction.

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

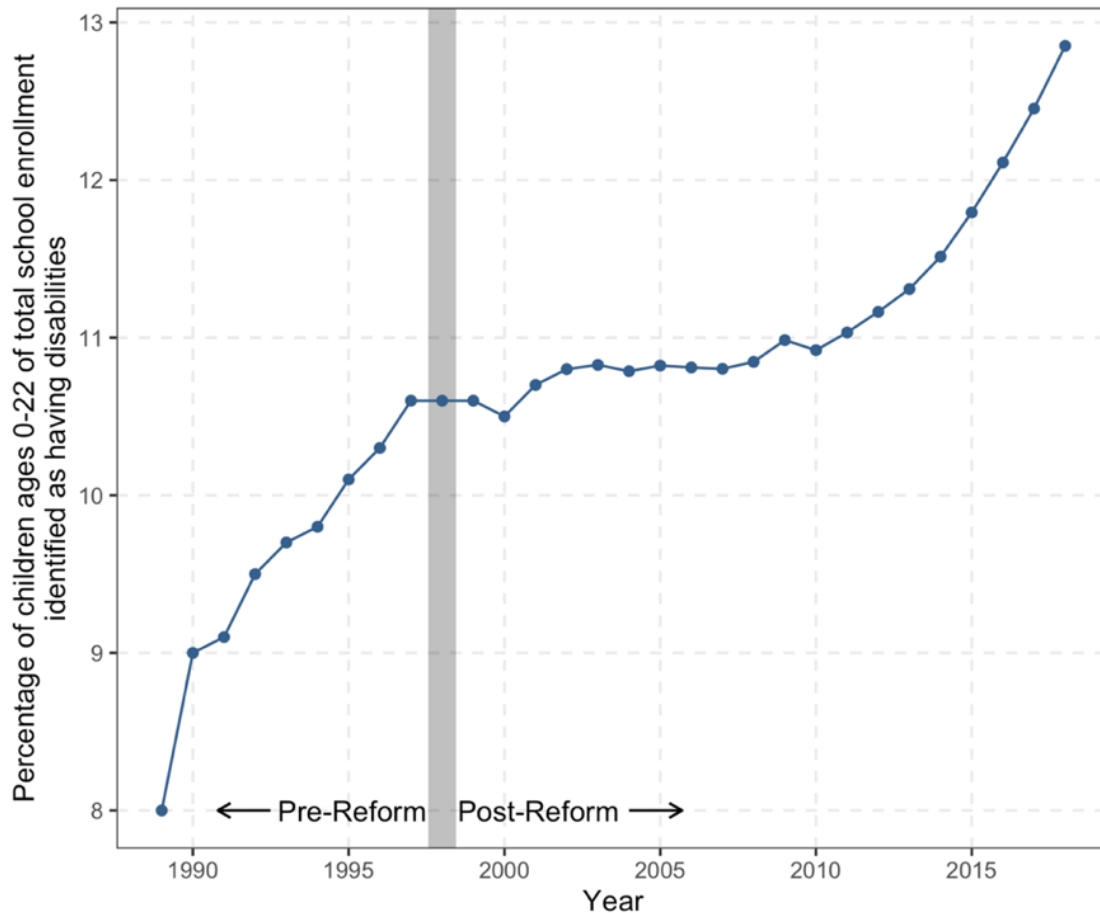


California’s Special Education Funding System

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.

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 made available only to small SELPAs, many multi-LEA SELPAs report administering their own high-cost pools.

Role of Multi-LEA SELPAs in California Special Education Funding

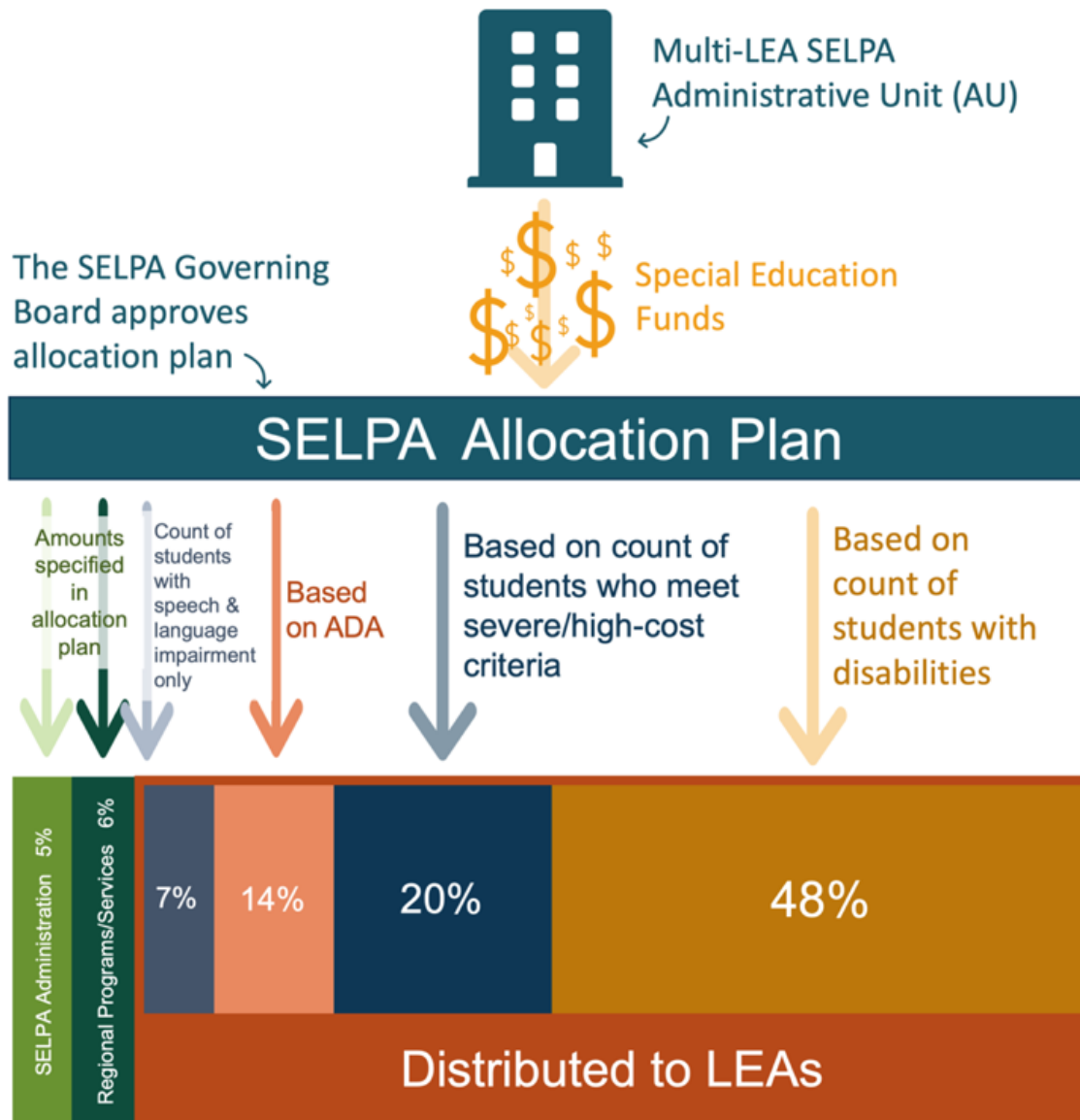
More than 90 percent of California LEAs, including all charter LEAs, belong to a multi-LEA SELPA. Multi-LEA SELPAs are intended to ensure that smaller LEAs have sufficient resources to meet programmatic requirements by pooling resources for multiple LEAs to create economies of scale. SELPAs are responsible 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 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 Expenditures

- 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

Introduction

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). However, a few categorical programs were left unaltered by the LCFF finance reforms, including funding for students with disabilities.²

So, although the LCFF has represented a sea change in how California funds and supports general education and in how local education agencies (LEAs) are held accountable, the funding system for students with disabilities remains unchanged, except for the increase to and equalization of SELPA base rates included in the most recent budget acts.

Most of California's state special education funding comes from AB 602 funds, named for the 1997/98 legislation that established the special education funding system that continues to be used today. Unlike LCFF funds, which the state distributes directly to LEAs, AB 602 funds are instead distributed to special education local plan areas (SELPAs), which are service delivery regions. In some instances, a SELPA region is congruent with and entirely overlaps the service delivery area of a single large LEA; thus, these SELPAs are known as single-LEA SELPAs. In the 2017–18 school year, there were 129 SELPAs, 42 of which were single-LEA SELPAs. There were 87 multi-LEA SELPAs, which are SELPA service delivery areas encompassing multiple smaller LEAs (including charter LEAs).

Although their name might imply that they only represent a geographic service region, SELPAs also serve as legal intermediary agencies for purposes of state and federal special education funding and service provision. Each SELPA has its own governing board, composed primarily of the superintendents of all member LEAs, and an administrative unit, typically a county office of education or large LEA, which carries out the board's policies and directives on behalf of the students with disabilities who live within the SELPA region.

In this intermediary capacity, SELPAs receive AB 602 funds, along with other state and federal special education funds³ and then allocate and distribute those dollars in accordance with each SELPA's unique plan for doing so. All LEAs are required to develop their own *special education local plan* (local plan) — or to develop a plan in conjunction with other LEAs (through a multi-LEA SELPA) — that explains how the SELPA will provide or coordinate special education services in the upcoming year. That local plan must include both a special education budget and an allocation plan that outlines how funds will be allocated and distributed by the SELPA to best support implementation of the overall local plan. For single-LEA

² For this report, unless otherwise specified, the term *students with disabilities* refers to students aged 3–21 with one or more of the disabilities identified under federal law and who require special education and related services because of their disability provided through an IEP (20 U.S. Code § 1401).

³ Federal IDEA funds are also distributed from the state to SELPAs in a manner similar to AB 602 and other state special education funds. However, this report focuses on state special education funding and does not address federal funds except in a few specific instances.

SELPA, which effectively operate with their LEA as one entity, all special education funds are used to support their LEA's special education programs and the special education programs at charter school LEAs that are schools of the district for purposes of special education. The process is more complicated for multi-LEA SELPAs, which must make funding decisions on behalf of all LEAs and students with disabilities across a SELPA's region.

Once the legislature approves a state budget that establishes how much money will be designated for special education in a given year, the California Department of Education (CDE) uses the formula established by AB 602 to calculate the amounts of base funding that will be distributed to the SELPAs, as well as amounts of supplemental special education funding streams, further described in section 3 of this report. As part of its special education funding system and as directed by the legislature, the state uses a specific minimum base funding amount. The state's funding formula multiplies each SELPA's average daily attendance (ADA) by its per-child amount, which is then adjusted based on SELPA-specific rates, using a formula based on costs incurred by that same SELPA in the late 1990s, with adjustments having been made over time to account for inflation and other factors. The ADA for a single-LEA SELPA is the same as that of its LEA; the ADA for a multi-LEA SELPA is the aggregate ADA across its member LEAs.

The 15-year gap between the development of the AB 602 funding system and the LCFF, coupled with the fact that each multi-LEA SELPA develops its own funding allocation and distribution processes, has contributed to incongruence in the per-child funding rates and programs between SELPAs. Because single-LEA SELPAs do not have to make decisions about allocating and distributing their special education funds to other LEAs, subsequent references to or discussion of funding issues in relation to SELPAs relate only to multi-LEA SELPAs unless otherwise noted.

Prior Reports on California's Special Education Funding System

California's special education funding system has been acknowledged as being underfunded. The state has taken initial steps to increase special education funding and address other challenges of the system through the 2019 and 2020 Budget Acts.

Over the past five years, a number of studies related to special education funding equity and adequacy in California have been conducted (e.g., California Statewide Special Education Task Force, 2015; Hill et al., 2016). Prompted by the resulting publications, policymakers, stakeholders, and researchers have debated the strengths and weaknesses of the current special education finance system. For example, these studies have raised concerns about funding inequities resulting from California's current system, AB 602, because the system provides different special education funding rates — based on decades-old measures — for different SELPAs (California Statewide Special Education Task Force, 2015; Hill et al., 2016). The studies have also raised concerns about the adequacy of funding, because funding has not kept pace with the increasing number of students identified with disabilities and the growing share of high-cost education programs (e.g., intensive supports and services for students with severe disabilities) (Hill et al., 2016; Warren & Hill, 2018).

Special education personnel, researchers, and other stakeholders largely agree that more money is needed in order to adequately meet the education needs of students with disabilities (California Statewide Special Education Task Force, 2015; Hill et al., 2016). However, many also acknowledge that additional funds should not be added to a distribution system that itself may be inequitable and misaligned, noting a lack of alignment between the LEAs that are held accountable for the outcomes of students with disabilities and the state and local agencies that control the allocation of special education funds. This problem has persisted over time and, in 2017 and 2018, school districts were most likely to be identified as needing support from county offices of education because of poor performance on student outcome indicators for students with disabilities (CDE, 2020h). While the state has taken some steps to address these challenges, state special education funding continues to flow to SELPAs while LEAs are held responsible for student outcomes for all students, including students with disabilities.

Another possible consequence of a separate special education funding system is that the funding system may undermine the LCFF's goal of using flexible funding to provide equitable education and generate equitable outcomes for all students. Many California students with disabilities are also in those student groups that have been identified for additional funding under the LCFF (see sec. 1, table 1): 67.5 percent of California students with disabilities are socioeconomically disadvantaged, 28.6 percent are English learners, and 2 percent are in foster care.⁴ If the state fails to fully meet the special education needs of these students, it's unlikely that additional general education funding for these students through the LCFF will result in the improved outcomes that the state intends to achieve. For instance, the best language development support for students who are English learners is unlikely to yield desired results if those students have special education needs that are not also effectively addressed. By coordinating the special education and general education funding systems, the state could potentially increase the impact of its investments in both programs and better meet its goal of achieving educational equity.

⁴ Data from DataQuest Enrollment Data, 2018–19. (CDE, n.d.).

Purpose of This Study

Despite concerns about what many see as inadequate special education funding levels, the primary focus of recent policy discussions in California has been on the structure of the state’s funding system. Yet, few studies have fully described the complexity of the system, including how funding flows between different levels of the system and how this impacts the ability of the education system to address student needs. This report, which represents the first stage of our study, aims to provide this foundation by advancing understanding of the current special education funding system. As framing for the description of the current system, this report also introduces the five components that must be considered when revising a funding system. Our next report will provide options for refining and improving the system.

In any study of a special education funding system, especially one focused on possibilities for improvement, it is important to start with a shared understanding of desired outcomes for that system. For purposes of this study, the study team posits those outcomes to be:

- correct, timely identification of students with disabilities;
- accurate identification of each student’s disability, needs, and services to meet the student’s needs;
- meeting all special education legal mandates;
- effective and efficient provision of services;
- provision of the correct amount of funding for these services; and
- provision of funding through the correct mechanisms and agencies (i.e., for the most effective and efficient provision of services).

In other words, the goal of the system is to provide the *right amount* of funding to the *right agencies* so that they can provide the *right services* to the *right students*. Naturally, each of these actions is easier said than done. Moreover, as discussed further in section 4 of this report, when decision-makers design each component of an education funding system, every design choice has its own tradeoffs. For example, one design choice might incentivize LEAs to overidentify students with disabilities, whereas another choice might incentivize LEAs to underidentify students with disabilities. Given the aforementioned goals of the system, neither of these choices is necessarily more desirable than the other, as the goal is to identify the *right students* — no more, no fewer⁵ — and serve them appropriately.

⁵ Thus, it is important to note that throughout this study, in contexts where lowering identification rates may be portrayed as a desired outcome, this is only in response to circumstances where it appears that students had previously been overidentified. In such cases, lowering the identification rates would likely indicate more accurate identification.

Study Design

This study of California's special education funding system takes place in multiple stages.

Descriptive Analysis of Special Education Funding in California

In this report, the research team fully investigated, and now describes, California's current special education funding system in all its complexity. To provide as comprehensive a description as possible, this report includes an overview of how the current funding system was developed and how it currently functions. The latter focus includes an examination of how funds are allocated and distributed from the state to both single- and multi-LEA SELPAs and, in turn, how multi-LEA SELPAs allocate and distribute those funds to their member LEAs. The report also presents a policymaking framework for conceptualizing the components of any education funding system.

This initial investigation was guided by two research questions:

1. How does California's special education funding formula allocate and distribute state funds to SELPAs and LEAs in California? How does this compare with other states?
2. How do the governing boards of multi-LEA SELPAs in California currently allocate and distribute state and local dollars to member LEAs, construct educational programs, and support students with disabilities?

Implications for and Modeling Refinements to the Funding System

Using the framework and informed by the description of California's special education funding system from this report, the next report will use statistical modeling, integrating quantitative data and potential funding formulas, to model how various funding-system scenarios would play out.

In particular, the next report will look at different options for refinements and future revisions to the state special education funding system that align with California's future programmatic priorities for improving education services and outcomes for all students with disabilities. Specifically, in the study team's conversations with representatives from the CDE and the California State Board of Education (SBE), these state leaders identified a vision for a new funding system that will:

- ensure that funds reach students with the greatest need, including students who, in addition to qualifying for special education, qualify for other services or supports (e.g., those who are designated English learners or are socioeconomically disadvantaged);
- prioritize appropriate early intervention and identification;
- promote the implementation of inclusive practices, including increased access to inclusive preschool and, also, inclusive high-quality, grade-level instruction; and

- support LEAs to effectively serve students with low-incidence disabilities, as well as students who are placed in high-cost programs, including home, hospital, nonpublic school, and out-of-district placements.

The creation of a cost function model will enable study of the relationships between cost, student need, and student outcomes. The next report will include a discussion of potential funding options explored through the cost function model, including identifying areas of need and opportunities for the most benefit where the state should focus any additional revenues that become available.

The next report will respond to the following research questions:

1. What are potential approaches to the allocation, distribution, and expected expenditures of special education funding, with attention to the state's priorities and research of effective practice?
 - a. How would any proposed changes to the current allocation and distribution of funding for special education impact funding for each LEA and SELPA?
 - b. What are the potential benefits and drawbacks of restricting the use of some or all state special education funding?
2. For which programs and services do economies of scale currently exist for California's LEAs?
 - a. Which LEA characteristics increase the potential benefit of economies of scale?
 - b. Which services are better candidates for delivery with economies of scale, rather than delivery by individual LEAs or SELPAs?

Organization of this Report

This report documents findings from this descriptive study as follows:

- Section 1, California's Students With Disabilities, provides data on California's students with disabilities population (including demographics, academic performance, and shifts in the population over time).
- Section 2, Development of California's Education Funding System and Associated Outcomes, provides background information on the development of California's special education funding system and discusses its apparent consequences for special education programs.
- Section 3, Sources and Types of Funding for Special Education in California, addresses research question 1 by describing how California's special education funding formula allocates and distributes multiple state special education funding streams to SELPAs and LEAs.
- Section 4, California's Special Education Funding System, offers a framework for education funding policymaking, including policy decisions around the design of an education funding

formula. This section addresses research question 1 in greater depth by describing California’s special education system through the lens of the framework. This section also discusses the interactions between funding formula designs, governance structures, and accountability systems.

- Section 5, Roles of Multi-LEA SELPAs in Special Education Funding System, explores findings from research question 2 and presents and analyzes original data from multi-LEA SELPAs on how they allocate funds, distribute funds, and communicate expectations for LEAs’ expenditures.

Methods

This descriptive report is based on mixed-methods research. Section 1 presents descriptive analyses of publicly available data from the 2018/19 school year on California student demographics, funding, and academic achievement. Sections 2 and 3 draw from reviews of primary source documents and interviews with state policymakers and practitioners. For example, the research team reviewed California’s *Master Plan for Special Education* (the Master Plan), budget analyses from the California Legislative Analyst’s Office (LAO), evaluations of the Master Plan’s implementation from the LAO, and reports from the LAO on special education funding from the 1990s. The research team also conducted interviews with retired legislators; SELPA directors; lobbyists; special education funding consultants who worked in the field during the transition from the previous special education funding system, SB 1870 (also known as J-50), to the current system, AB 602; and other researchers who, within the last year, have carried out special education studies in California.

Sections 4 and 5 draw on data collected through a statewide survey of SELPA administrators and analyses of a sample of multi-LEA SELPA allocation plans. The research team administered the survey to all SELPA directors from February 2020 through March 2020. The survey was developed with input from the statewide SELPA Executive Board to ensure that questions were clear and that some of the questions, aimed in particular at multi-LEA SELPAs, would solicit robust information about how they, with guidance from their governing boards, allocate and distribute state special education funding to their LEA members. Sixty SELPA administrators (from both single- and multi-LEA SELPAs) responded to the survey, representing nearly half of the state’s SELPAs. Researchers triangulated the survey data with data from a review of the allocation plans from 20 of the 54 multi-LEA SELPAs represented in the survey responses. The team initially intended to conduct a systematic analysis of allocation plans from all responding multi-LEA SELPAs in order to understand how frequently various funding allocation methods were employed across the state. However, after reviewing the first 20 plans, the research team determined that the intended systematic review and categorization of multi-LEA SELPA allocation methods could not be completed due to the plans’ nonstandard formats, the plans’ nonstandard language, and the sheer variety of allocation and distribution mechanisms both between SELPAs and within individual SELPAs’ use of different funding streams. Although the researchers found that categorization was not possible, the information obtained from reviewing the 20 plans and from surveying SELPA administrators became the evidence base for the section 5 description of multi-LEA SELPAs’ role in allocating and distributing funds to LEAs, as well as in establishing expectations for the expenditure of these funds. More detailed descriptions of the methods employed in each section of the report are included in appendix A.

Section 1: California’s Students With Disabilities

Before examining California’s special education funding system, it is critical to think about those whom the system serves: California’s students with disabilities. This section provides an overview of data and trends related to California’s students with disabilities population.

Students with disabilities constitute a substantial and growing proportion of California’s students, and they disproportionately overlap with other high-need student groups. However, there is wide variation across the students with disabilities population (e.g., variation in disability category and inclusion rates), and the proportions of students with disabilities varies widely between counties and between individual LEAs. This means that there is also wide variation in the levels and types of supports that LEAs must provide to meet the needs of students with disabilities. Meanwhile, persistent achievement gaps suggest that more work is needed to create inclusive, equitable education systems that ensure all students succeed and thrive.

Identification Rates

California’s K–12 public education system, the largest in the United States, serves a diverse population of some 6.1 million students.⁶ Part of the overall state system is a large special education system serving 725,412 students with disabilities across more than 2,000 LEAs⁷ and 138 SELPAs (CDE, n.d.). Not included in the latter student count are the roughly 70,000 students with disabilities who receive services outside the K–12 arena, because special education service eligibility includes ages 0–22. Thus, the state’s special education system actually serves more than 795,000 students with disabilities (CDE, 2020a).

Demographics

Table 1 shows general demographic information for all California K–12 public school students alongside information for all California K–12 public school students with disabilities. Notably, male students are much more likely to be classified as students with disabilities (51.4 percent of all students and 67.4 percent of students with disabilities) compared with females (48.6 percent of all students, but only 32.6 percent of students with disabilities).

⁶ All data presented herein are from the 2018/19 school year unless otherwise stated.

⁷ The 2,000-plus LEAs included 1,037 school districts and 1,313 charter schools in 2018/19.

Table 1. Demographic characteristics of California K–12 students, 2018/19 school year

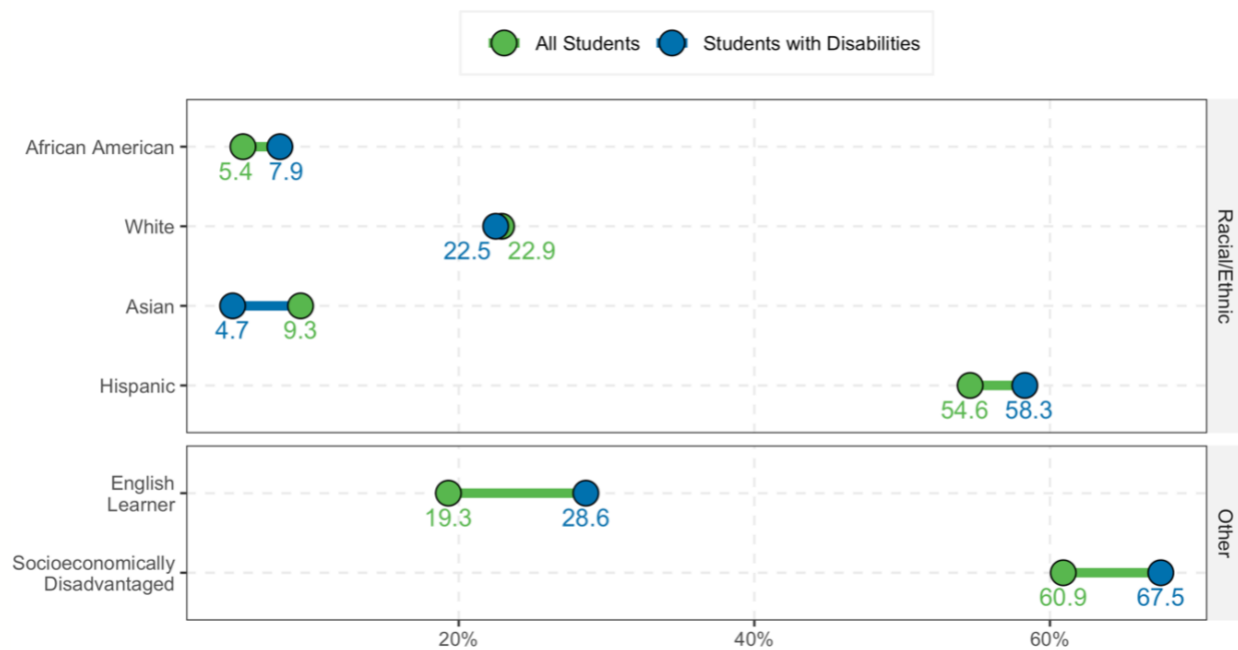
CHARACTERISTICS	ALL STUDENTS <i>N</i> = 6,186,278		STUDENTS WITH DISABILITIES	
Gender				
Female	3,008,055	48.6%	236,138	32.6%
Male	3,178,223	51.4%	489,274	67.4%
Race/Ethnicity				
American Indian	31,358	0.5%	5,072	0.7%
Asian	573,925	9.3%	34,198	4.7%
Filipino	28,085	0.5%	11,053	1.5%
Pacific Islander	149,680	2.4%	2,543	0.4%
Hispanic	3,374,921	54.6%	422,608	58.3%
African American	334,652	5.4%	57,026	7.9%
White	1,417,055	22.9%	162,978	22.5%
Multiple	223,967	3.6%	24,219	3.3%
Not Reported	52,635	0.9%	5,715	0.8%
Socioeconomically Disadvantaged*	3,766,007	60.9%	489,954	67.5%
Foster Youth*	46,810	0.7%	14,699	2.0%
English Learner*	1,195,988	19.3%	207,441	28.6%

Note. *Group designations are taken from California School Dashboard. Data from DataQuest Enrollment Data, 2018/19 (CDE, n.d.).

Disability classification rates also differ by students' racial and ethnic backgrounds. Figure 1 highlights this pattern, showing the disproportionate special-education classification of African American students, who represent 5.4 percent of all students, but 7.9 percent of students with disabilities, and Hispanic students, who represent 54.6 percent of all students, but 58.3 percent of students with disabilities. This pattern is reversed for Asian students, who represent a smaller proportion of students with disabilities than they do of all students. White students represent roughly the same proportion of all students as they do of students with disabilities.

The most disproportionate special-education identification is found among English learner students, who represent 19.3 percent of all students, but represent 28.6 percent of students with disabilities, and students who are from socioeconomically disadvantaged homes, who represent 60.9 percent of all students, but represent 67.5 percent of students with disabilities.

Figure 1. Disproportionate identification of California students with disabilities (Disproportionality), 2018/19 school year

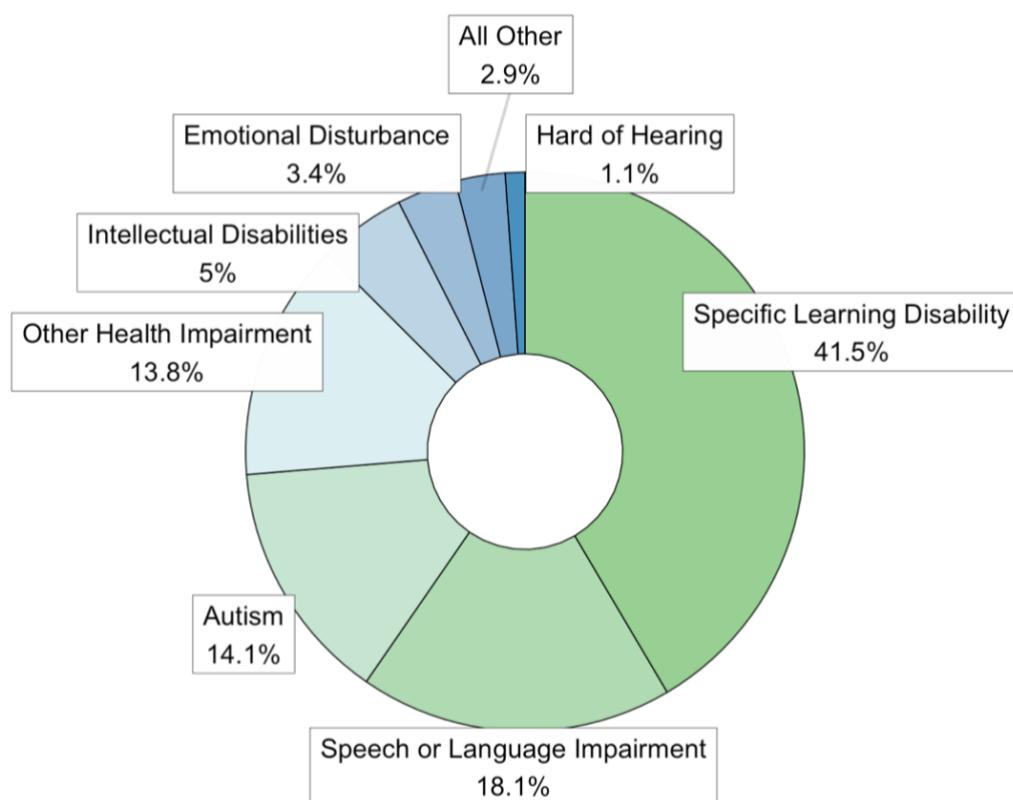


Note. Data from DataQuest Enrollment Data, 2018/19 (CDE, n.d.).

Disability Type

Of the more than 725,000 K–12 students with disabilities in 2018/19, the most frequent disability classifications were specific learning disability, speech or language impairment, and autism, collectively comprising 73.7 percent of all students with disabilities (fig. 2).

Figure 2. Disability classification prevalence among California’s K–12 students with disabilities, 2018/19 school year

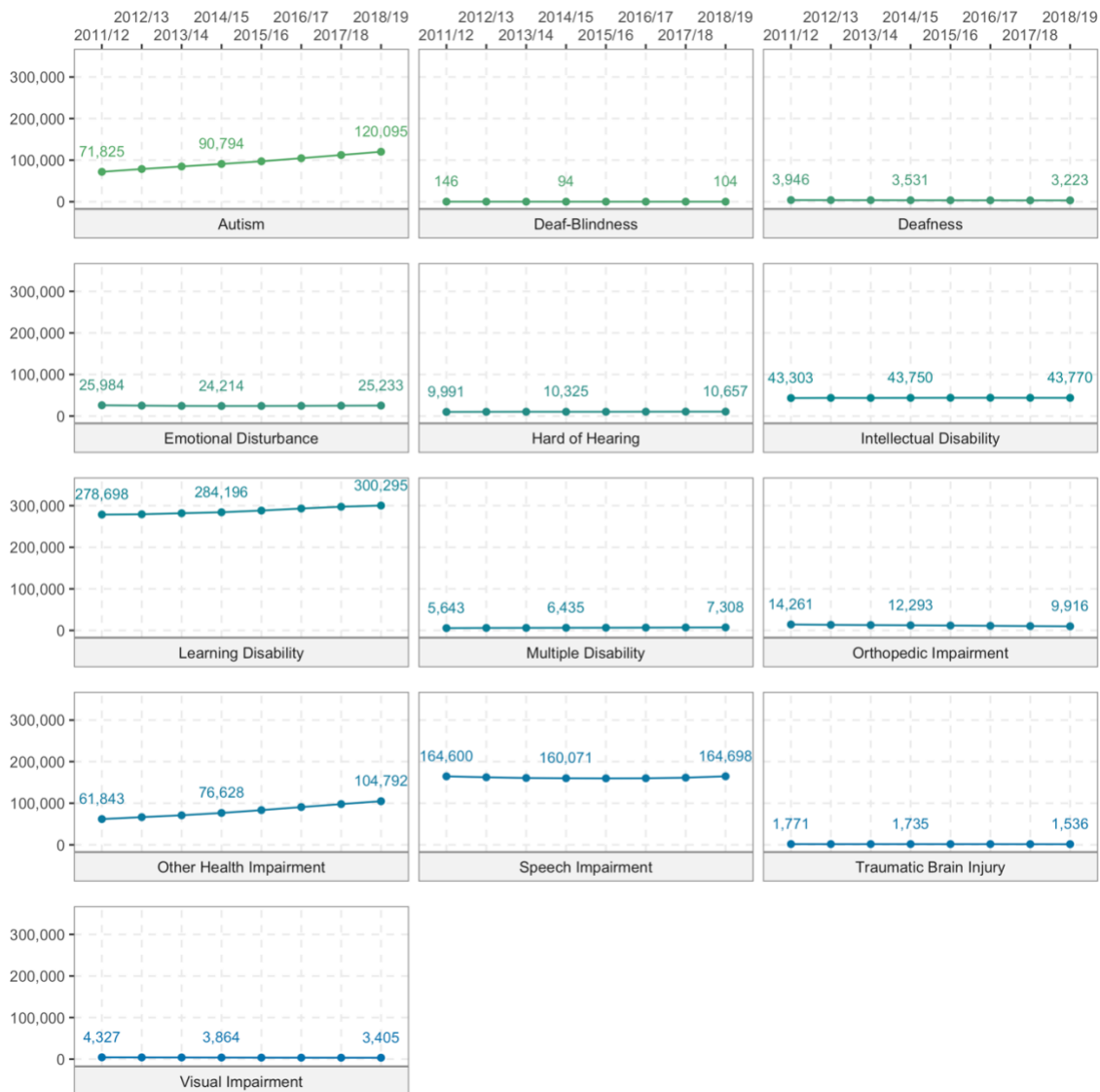


Note. Data from DataQuest 2018/19 Special education enrollment by age and disability statewide report (CDE, 2020a).

Over the last decade, California’s population of students with disabilities has shifted in some notable ways. Figure 3 highlights the changes in disability classification rates by disability category between 2011/12 and 2018/19. Most notably, since 2011/12, rates for autism have increased by 67 percent, rates for other health impairments have increased by 69 percent, and rates for specific learning disabilities have increased by nearly 8 percent. These disability categories were already among the largest categories of disability classification in 2011/12, and the higher rates over the last eight years have translated to an overall increase of more than 100,000 students with disabilities served by California public schools, during a period in which overall K–12 enrollment public school enrollment statewide has decreased by 100,000 students.⁸

⁸ Data from DataQuest Special Education Data, 2018/19. (CDE, n.d.).

Figure 3. Trends in California classification counts by disability category, 2011/12–2018/19 school years



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

Another notable shift over the last decade has been the increase in the number of charter schools serving California students with disabilities. However, proportionally, charter schools that are LEAs for special education purposes enroll fewer students with disabilities on average than traditional LEAs — 9.4 percent of total enrollment versus 10.7 percent, respectively. Further, as shown in table 2, compared with their traditional counterparts, charter LEAs tend to serve a different profile of students with disabilities. Compared with non-charter LEAs, charter LEAs for purposes of special education, on average, serve similar proportions of students identified in the disability categories of specific learning disability, speech and language impairment, emotional disturbance, and other health impairment, but serve smaller proportions of students identified in other, higher-cost disability categories, including autism, intellectual

disability, and multiple disabilities. It is important to consider that this analysis looks only at charter schools that are LEAs for purposes of special education. Many non-charter LEAs include charter schools that are schools of the LEA. See appendix F for more information on charter school LEA status.

Table 2. Enrollment, by disability category, of California K–12 students with disabilities in non-charter LEAs and charter schools that are LEAs for special education purposes, 2018/19 school year

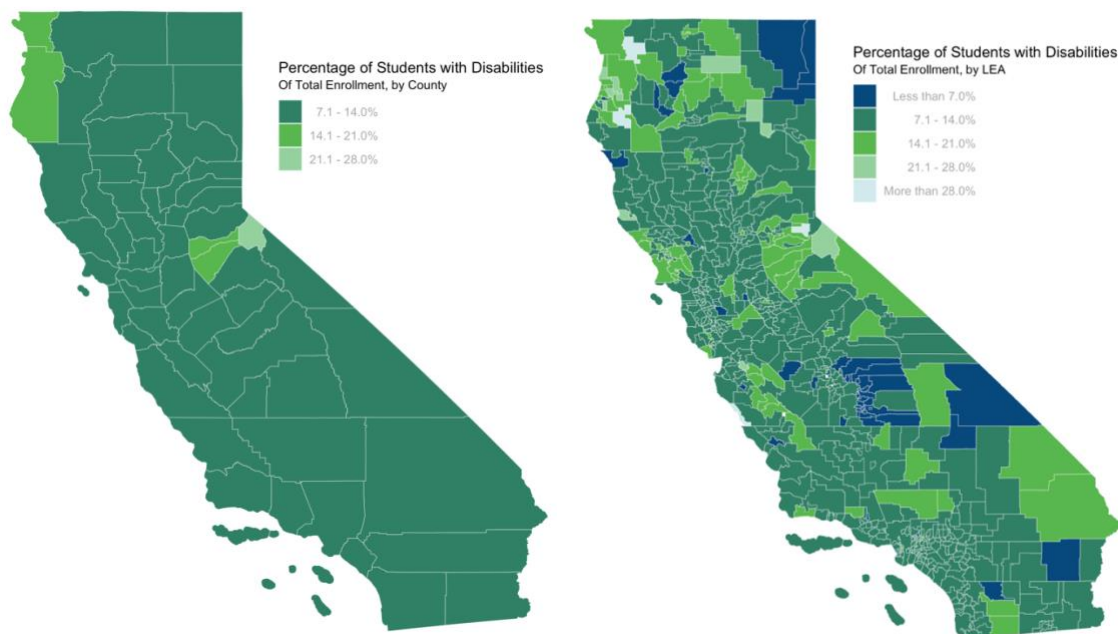
DISABILITY CATEGORY	NON-CHARTER N = 6,063,877		CHARTER N = 153,171	
	COUNT	% OF TOTAL ENROLLMENT	COUNT	% OF TOTAL ENROLLMENT
Autism	83,931	1.38%	1,330	0.87%
Deaf Blind	87	<.01%	-	-
Emotional Disturbance	23,751	0.39%	665	0.43%
Hearing Impaired	10,269	0.17%	150	0.10%
Multiple Disabilities	5,763	0.10%	22	0.01%
Intellectual Disability	39,937	0.66%	219	0.14%
Other Health Impairment	82,611	1.36%	2,525	1.65%
Orthopedic Impairment	9,284	0.15%	84	0.05%
Specific Learning Disability	284,976	4.70%	7,227	4.72%
Speech Language Impairment	106,535	1.77%	2,158	1.41%
Traumatic Brain Injury	1,566	0.03%	36	0.02%
Vision Impairment	3,020	0.05%	46	0.03%

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

Variation by Region

The rate of disability classification also varies by LEA within California, as shown in figure 4. For example, in the 2016/17 school year, the latest year for which complete California Special Education Management Information (CASEMIS) data are available, students with disabilities constituted between 0 and 36 percent of the total enrollment within each of California’s LEAs. Notably, both the highest and lowest proportions of students with disabilities are almost exclusively found in the smallest of California’s LEAs. For example, all LEAs with classification rates of more than 25 percent, or, conversely, of 0 percent have total enrollments of less than 125 students. Meanwhile, the vast majority of LEAs have rates between 10 and 15 percent, closer to the statewide average of 11.7 percent.⁹

Figure 4. Variability of disability identification rates across California LEAs and counties, 2016/17 school year



Note. CASEMIS 2016/17 data provided by the CDE.

There is also high variability within the LEAs served across counties and, more important, within multi-LEA SELPAs. Aggregating data by county or multi-LEA SELPA may mask the variability by LEA. Table 3 shows the five multi-LEA SELPAs with the largest differences (i.e., the largest ranges) in percentages of students with disabilities between their various member LEAs. Within the Humboldt–Del Norte multi-LEA SELPA, for example, one LEA has identified 5.5 percent of enrolled students as having disabilities, whereas another LEA has identified 36 percent.

⁹ Data provided by the CDE from the California Special Education Management Information System (CASEMIS) for 2016/17 school year.

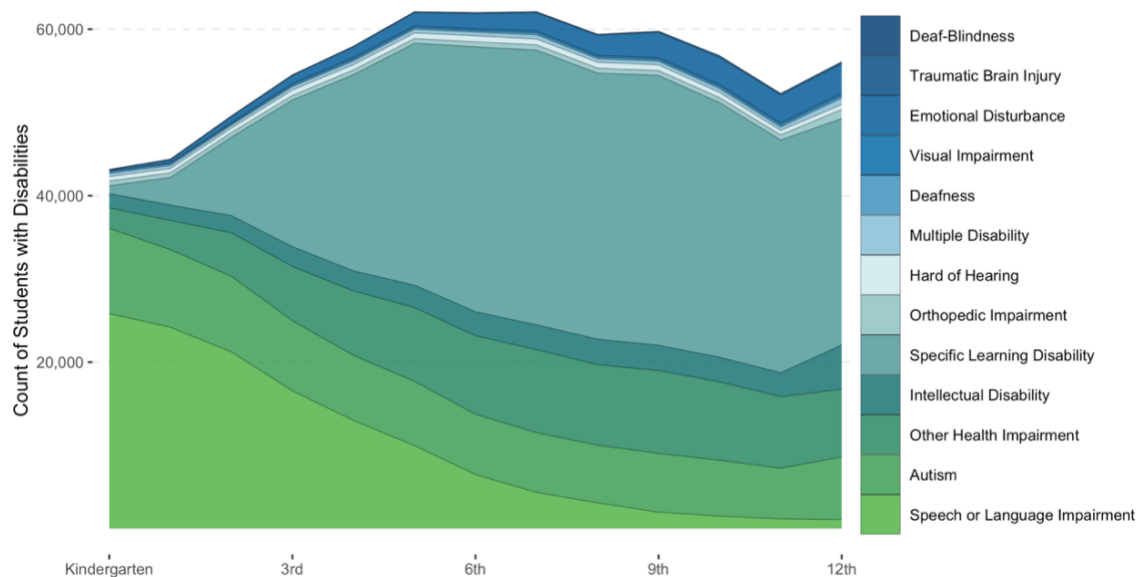
Table 3. California’s SELPAs with the largest ranges in percentages of students with disabilities between member LEAs, 2016/17 school year

MULTI-LEA SELPA	RANGE	MINIMUM	MAXIMUM
Humboldt–Del Norte	30.5	5.5	36.0
El Dorado County	30.5	5.9	36.4
Siskiyou County	29.2	0.0	29.2
San Benito County	21.0	5.1	26.1
Lassen County	19.4	6.6	25.9

Note. CASEMIS 2016/17 data provided by the CDE.

An additional analysis of student identification rates for specific disability categories in California reveals key differences by grade level (fig. 5). For the early grades, speech or language impairments constitute the vast majority of identified disabilities. However, by grades 5 or 6, 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 5–6, that the number of students with disabilities peaks, with more than 60,000 students identified per grade. Notably, the number of students with autism remains relatively steady across all grades.¹⁰

Figure 5. 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).

¹⁰ The actual values by disability category over time are presented in figure 3.

Inclusion Rates

The majority of California students with disabilities (almost 57 percent) are taught in general education classrooms for at least 80 percent of the school day, alongside students without disabilities (table 4). Almost 20 percent of California students with disabilities split their time between general education classrooms (40 to 79 percent of the school day) and special education classrooms, and approximately 20 percent of students with disabilities are in the general education classroom for less than 40 percent of the school day — with the latter being about twice the national average of students in that placement. California’s placement rates have been fairly steady across each environment category since 2015/16.

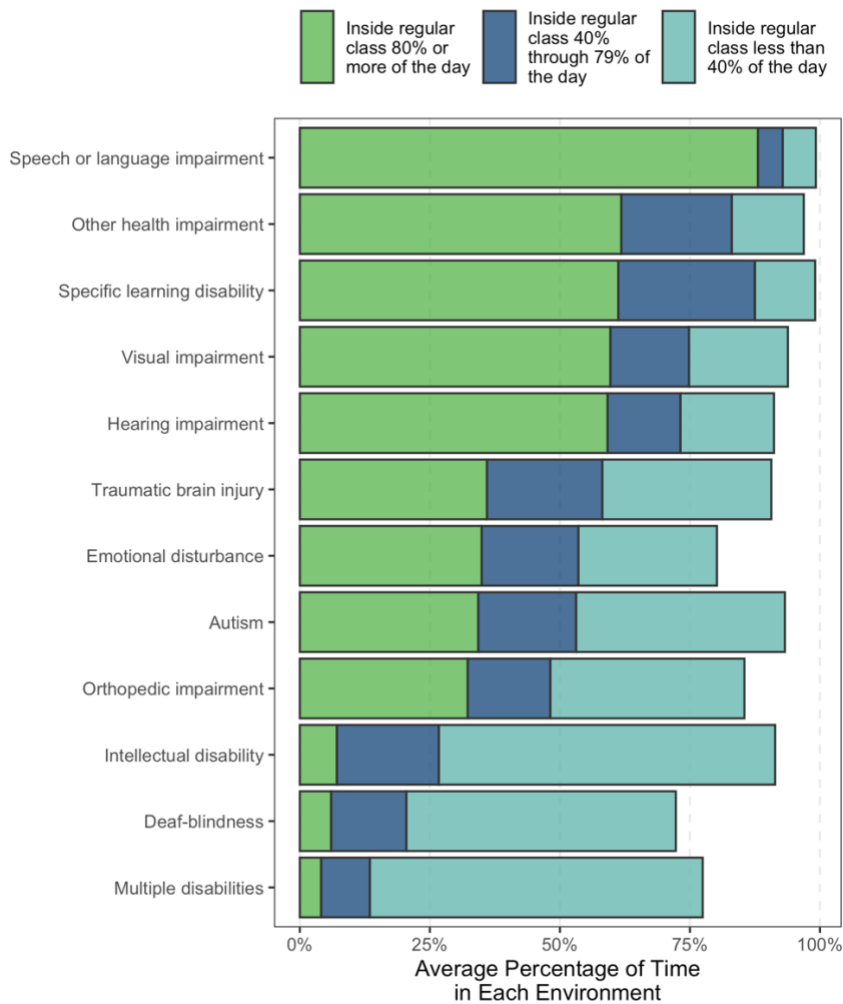
Table 4. Placement of California students with disabilities in the least restrictive environment compared with U.S. average, by percentage, 2018/19 school year

LEAST RESTRICTIVE ENVIRONMENT	CALIFORNIA	U.S. AVERAGE
80% or more time spent in regular classrooms	56.9%	66.2%
40–79% time spent in regular classrooms	19.9%	19.1%
Less than 40% time spent in regular classrooms	19.5%	10.6%
Attending a separate school	2.7%	2.1%

Note. Data as reported to IDEA, Section B. (U.S. Department of Education, Office of Special Education and Rehabilitative Services, 2019b).

Special education placement decisions are made by each student’s Individualized Education Program (IEP) team and should not be made based on the student’s disability category. As a result, inclusion rates vary based on students’ disability categories, and placement settings vary within each disability category. Figure 6 shows the proportion of the school day that students with disabilities spend in each type of environment, on average, disaggregated by disability category.

Figure 6. Percentage of time that students with disabilities spend in different types of educational environments, by disability category

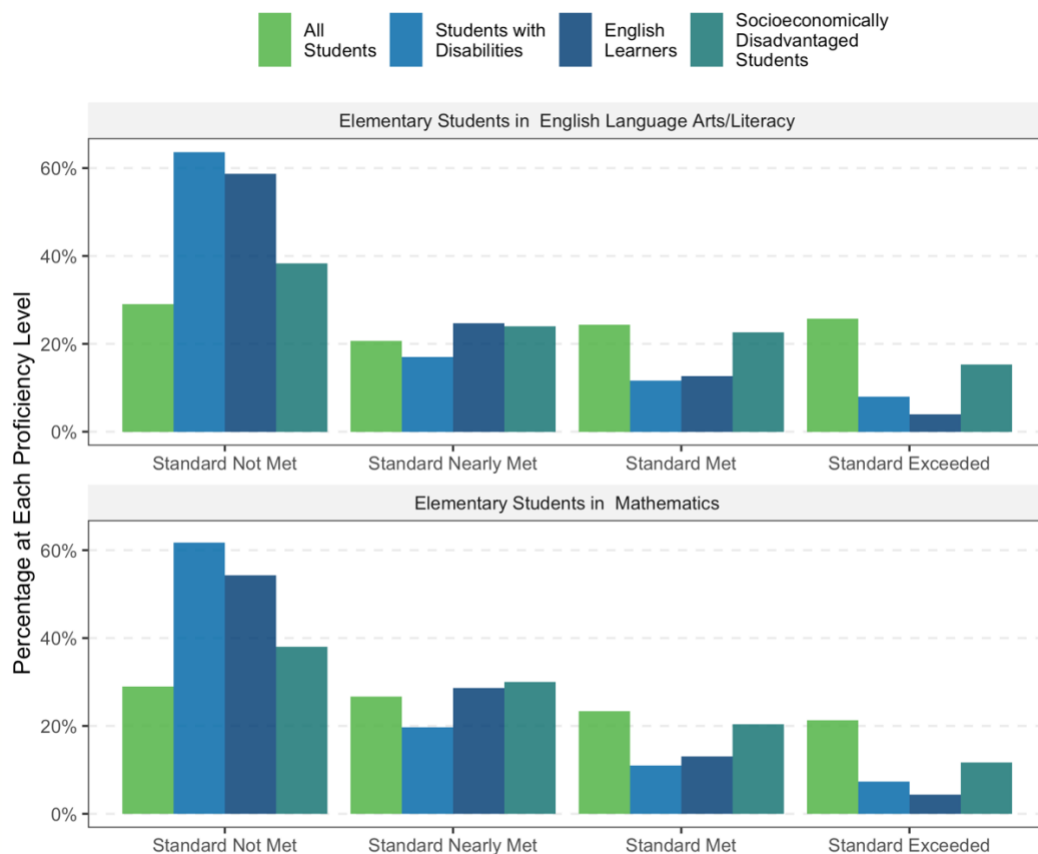


Academic Performance

As is the case in all other states (National Center for Systemic Improvement, 2020), California's students with disabilities have lower academic performance levels than students without disabilities on standardized, summative performance measures such as the National Assessment of Educational Progress (NAEP). The achievement gaps for California students' performance on statewide assessments shown in figure 7 were calculated based on the differences in achievement between the overall student population and other specific student groups for each of four achievement levels: Standard Not Met, Standard Nearly Met, Standard Met, Standard Exceeded.

Figure 7 shows achievement levels for school year 2018/19 in English language arts/literacy and in mathematics for students overall, as well separately for students with disabilities, students who are socioeconomically disadvantaged, students in foster care, and English learners. The majority of students with disabilities (69.1 percent) are at the Standard Not Met level across elementary, middle, and high schools. Compared with all students, students with disabilities are less frequently at the Standard Met or Standard Exceeded levels. It is important to consider that this includes all students who receive special education services, the majority of whom do not have significant cognitive delays and who receive special education services in the general education classroom. Although the figure focuses on elementary students, the performance pattern is similar for middle and high school students, although somewhat more pronounced in high school (California Assessment of Student Performance and Progress [CAASPP], n.d.).

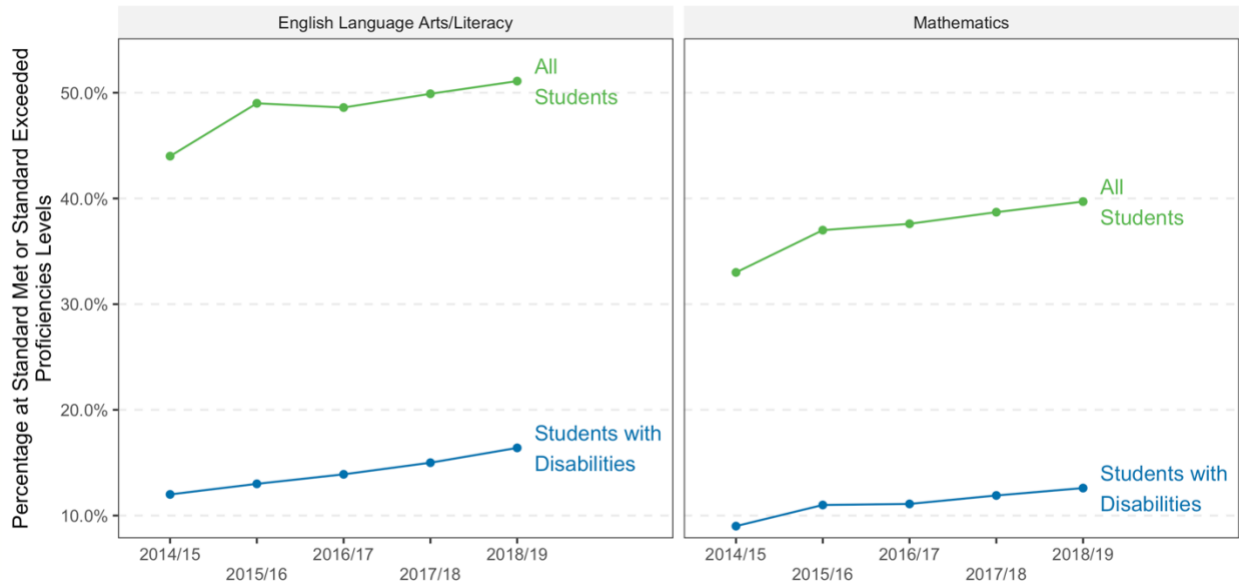
Figure 7. Achievement levels of elementary students, 2018/19 school year



Note. Data from California Assessment of Student Performance and Progress data, 2018/19 (California Assessment of Student Performance and Progress [CAASPP], n.d.).

The 2018/19 achievement gaps have not varied much since the 2014/15 school year (fig. 8); however, the performance for students overall and for students with disabilities has improved slightly over time.

Figure 8. Trend in achievement gaps for English language arts/literacy and mathematics across all grades between 2014/15 and 2018/19



Note. Data from California Assessment of Student Performance and Progress data, 2018/19 (California Assessment of Student Performance and Progress [CAASPP], n.d.).

Section 2: Development of California’s Special Education Funding System and Associated Outcomes

This section provides the historical context for California’s current special education funding system. An understanding of some of the challenges faced in development of the current and past funding system can inform efforts to improve the existing funding system.

Development of California’s Special Education Funding System

In November 1975, the U.S. Congress passed the first iteration of the Individuals with Disabilities Education Act (IDEA), which mandated that all children with disabilities receive a free appropriate public education (FAPE) in the least restrictive environment (LRE). In the late 1970s, California implemented the *California Master Plan for Special Education*, designed to align with federal requirements under IDEA by expanding service provision to students with disabilities. The Master Plan established California’s Responsible Local Agencies — now called SELPAs — to ensure that smaller LEAs would be given sufficient resources (i.e., funding) to meet programmatic requirements. All LEAs were required to either join or form a SELPA. The Master Plan also introduced a new funding system that shifted the state’s special education funding system away from a patchwork of complex funding streams.

Special Education Funding Under J-50 (1980–1998)

The new funding law, adopted as State Bill (SB) 1870, but referred to most commonly as J-50, after its reporting form, was enacted in 1980. J-50 attempted to simplify the funding system by using three types of special education services to determine the amount of funding an LEA would receive: (1) special day class, (2) resource specialist, and (3) designated instruction and services. At the state level, funding was allocated to LEAs based on how many units the LEA qualified for within each service type. For example, if an LEA needed to provide four special day classes to serve its students with disabilities, then the state would allocate four units of special day class funding, based on the LEA’s historical cost of providing special day classes. The funding was distributed to SELPAs, which, in turn, distributed funds to member LEAs.

California's J-50 funding formula for special education serving students aged 3–21 was in place for nearly two decades,¹¹ but by the mid-1990s, a change was needed. The failure to update the funding formula to account for changes in costs and identification rates had made the funding formula inequitable and outdated. For example, funding rates for each type of service were based on a cost survey of actual LEA expenditures that had been conducted in 1979/80 with no subsequent updating to reflect rising costs over time (LAO, 1995). The formula had also been designed around a limited number of possible services, which meant that it did not accurately reflect the full range of student needs, and it did not support serving students with disabilities in general education classrooms, especially in the case of students with greater needs (Anderson, 2018). In addition, the formula placed caps on the amount of funding that could be allocated for each service type. Add-ons and waivers that were included in the formula to address unique situations made J-50 even more complex. Additionally, funds could only be used to provide services to students with IEPs and could not be used to provide preventive services to students who, without intervention and support, would be later identified with a disability. All these factors were only compounded over time by increasing expectations for how LEAs serve students with disabilities (e.g., expectations for greater inclusion), requiring LEAs to stretch limited dollars even further.

The study team's interviews with state special education leaders and policymakers whose work had given them insights into this 20-year period indicated that as J-50 became more inequitable, complex, and programmatically untenable, LEAs looked for ways to maximize their J-50 funding (a process called "maximization"), sometimes hiring consultants to help them navigate the complicated formula. In fact, the study team's review of SELPA allocation plans, all of which are publicly available, revealed that some of the plans still reference the change in revenue that occurred when the SELPAs instituted J-50 "maximization" efforts. For example, because practitioners have some latitude in whether or not a student is identified for special education, under which eligibility category the student qualifies, and which services the student receives, these three factors became some of the independent variables that could help an LEA receive more funding. Analyses conducted for a 1995 LAO report showed notable increases, between 1987/88 and 1993/94, in the eligibility categories and associated types of services that would give an LEA more revenue under J-50, as well as an increase in nonpublic school placements (which also yielded additional funding). The LAO hypothesized that the funding formula was one factor contributing to these increases (1995).

In the late 1990s, the Coalition for Adequate Special Education Funding was formed to tackle the challenges posed by California's special education funding system. The primary leaders of this coalition and its change effort were SELPA administrators who pushed to equalize funding rates,¹² add to the state's overall special education apportionment, and simplify the formula. California was not alone in seeking reform during this time period. In 1994, 28 states were considering major changes to their special education funding systems. The issues driving reform nationally were similar to those driving reform in California: the need for more flexibility in how funds could be used, including support for inclusive placements, and the need for funding that would account for rising special education costs and enrollments (Center for Special Education Finance, 1995). In 1998, a bipartisan special education funding

¹¹ California still uses the J-50 funding formula for early intervention for infants and toddlers.

¹² The state allocated each SELPA's funding using a different rate (based on their LEAs' historical costs of providing services in 1979/80). As a first step toward more equitable funding, there was first a push to simply make these funding rates equal across SELPAs.

bill was passed in California, with the two primary goals of simplification and funding rate equalization. This was AB 602, the current law that governs the funding of special education in California.

Special Education Funding Under AB 602 (1998–Present)

AB 602 was designed as a census-based system, meaning that it calculates funding based on each LEA's overall K–12 students' average daily attendance, which, in the case of multi-LEA SELPAs is aggregated from individual member LEAs to the SELPA level, for a total SELPA ADA. A census-based model had widespread appeal in the 1990s for several reasons: (1) it was simple and transparent, (2) it reflected the federal IDEA funding formula's shift toward a largely census-based model, and (3) it decoupled special education identification rates and special education funding (Center for Special Education Finance, 1995; Dhuey & Lipscomb, 2013). These desired benefits were reflected in the initial language of AB 602, but in order to get the bill passed, concessions were made that kept historical rates from J-50, based on data from December 1, 1999, baked into the new formula. In addition, key stakeholders lobbied for adjustments based on SELPA size (i.e., ADA), adding complexity back into the formula. Despite this complexity, and with concessions, AB 602 passed, famously, on the last night of the 1997 legislative session, at 5am, and it went into effect on July 1, 1998.

Outcomes Associated With California's Special Education Funding System

More than 20 years after the passage of AB 602, we can look at the operational outcomes (e.g., identification rates, cost of services, and cost responsibility for the state versus the LEA) associated with the AB 602 funding system, and we can examine whether that legislation achieved its intended purposes. AB 602 has had multiple initial and long-term associated outcomes for California's special education system. These outcomes are particularly worth examining within the context of the changes to California's special education population described in section 1 and the evolution of special education practice over the last two decades (e.g., shifts toward greater inclusion).

Initial Shifts Associated With the Adoption of AB 602

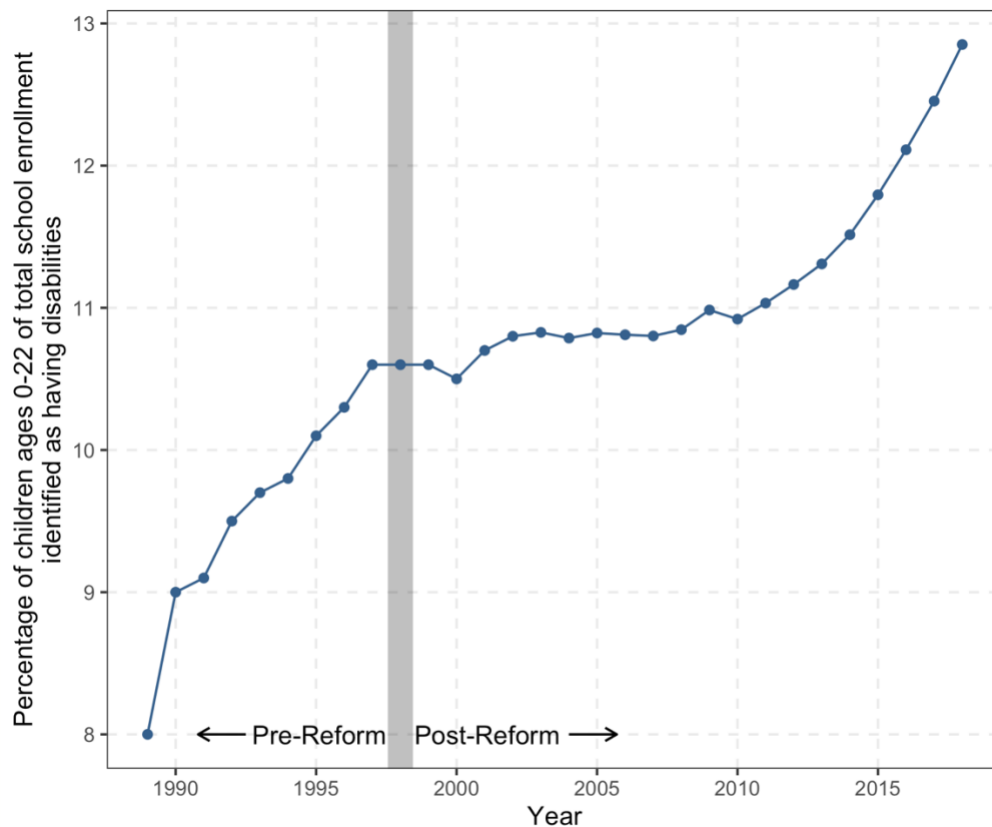
Because AB 602 was designed with a census-based allocation formula that decoupled funding from the number and type of students with disabilities enrolled, the law's introduction meant that then-current counts of students with disabilities and the services planned in their IEPs no longer impacted the amount of funding each SELPA received from the state. This kind of formula is thought by some to reduce fiscal incentives to overidentify students with disabilities. The appeal of such census-based formulas grew in the mid-1990s as special education enrollment surged and as states looked to simplify their funding systems and protect themselves against rising costs (Dhuey & Lipscomb, 2013). Between 1993 and 2000, nine states instituted census-based special education finance reforms (Kwak, 2010).

In 2011, a national study found that disability rates tended to fall by about 10 percent following a change to a census-based formula. Initially, the rates dropped in those eligibility categories associated with lesser needs, and later, they dropped in categories associated with greater needs (Dhuey & Lipscomb, 2011).

In California, Kwak (2010) studied the impact of the change from J-50 to AB 602, specifically investigating two levels of the impact: (1) how the change affected funding levels and disability classification rates within individual districts and (2) how the change influenced the statewide average disability classification rate in California compared with the rates in other states that did not switch to a census-based special education funding formula. The study found that the majority of California districts received slightly more funding following the shift to AB 602, with the average district receiving an increase of \$195 per student. Following the adoption of AB 602, districts also saw a reduction in disability identification rates, primarily for the “learning disability” and “other disability” categories.

As indicated in figure 9, following the 1998 shift to AB 602, California’s statewide disability identification rate stabilized for about a decade. However, after 2010, identification rates began to climb steeply once again.

Figure 9. 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.).

Furthermore, although California’s average special education identification rates initially stabilized following the shift from J-50 to AB 602, this does not mean that today’s official disability rates necessarily reflect the true rates of disability across the state.

Some would argue that the current system has entirely eliminated any fiscal incentives to overidentify students for special education. It may also be true that the incentives in place under J-50 that helped drive rates upward were eliminated with AB 602. But census-based systems present a *different* form of fiscal incentive, which is to suppress rates. Specifically, under systems that do not differentiate funding based on the number of students with disabilities or their education needs, 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). Nevertheless, as discussed in the following section on long-term effects, the initial stabilization of identification rates did not translate to long-term containment of costs.

Another significant and immediate change under AB 602 was an increase in the authority of a SELPA to modify the state's allocation formula. Under J-50, the allocation of funded units was calculated by the state, based on characteristics of each LEA. These funded units, determined by the three types of services noted earlier, were distributed to SELPAs. SELPAs then made decisions about how to allocate some of these state funding units to LEAs. However, under J-50, they did not have authority to create their own allocation model (i.e., to allocate funds differently than by funded units). By contrast, under AB 602, the allocation from the state is calculated based on the characteristics of the SELPA (i.e., total aggregate ADA of its member LEAs), rather than on the services needed by each individual member LEA. After the state funds are distributed to a SELPA, the SELPA's governing board, made up primarily of member LEA superintendents or their designees, allocates state funds to member LEAs using a formula it has developed itself that is embodied in its own allocation plan. These governing boards have wide latitude on whether and how to allocate and distribute funds to member LEAs (EC § 56205).

This ability of SELPAs' governing boards to allocate state funds by using their own unique approaches — and the resulting variances — impede research on the effects of AB 602 on special education enrollment and identification of new students with disabilities. The governing boards frequently use mechanisms other than or in addition to a census count for allocating funds to their member LEAs, such as actual counts of students with disabilities.¹³ Therefore, any research indicating that AB 602 has had a positive impact on identification rates may be based on a flawed assumption that AB 602 is strictly a census-based formula, as it was intended to be.

¹³ The allocation mechanisms employed by SELPAs are discussed in more detail in section 3 of this report.

Longer-Term Shifts Associated With AB 602

Although one study of AB 602 (Kwak, 2010) suggests that it effectively curbed special education identification in the short term, and although the legislation immediately gave SELPAs greater freedom in how to allocate and distribute funding, other impacts of AB 602 were less immediate. LEAs' identification rates of students with disabilities continued to rise, due, at least in part, to increasing proportions of children born and diagnosed with disabilities — a national trend over which neither the state nor local practitioners have any control (Zablotsky et al., 2019). Consequently, although AB 602 may have effectively functioned as a cost containment strategy for the state, in doing so, when combined with no increases in federal special education funding and increased special education costs, it pushed a higher proportion the costs to districts (Dhuey & Lipscomb, 2013). In a recent paper on the fiscal pressures facing school districts in California, 72 percent of interviewed leaders described the increasing costs of special education as a major fiscal pressure on their districts' budgets (Krausen et al., 2018).

Furthermore, although the intention of AB 602 policymakers was to equalize the historical rates over time, that desired outcome has not been realized. Per-student funding rates have continued to vary from SELPA to SELPA; in 2019/20, per-student funding ranged from \$557.27 to more than \$900.00 per student, due to rates determined using the J-50 formula (CDE, 2020d).

Section 3: Sources and Types of Funding for Special Education in California

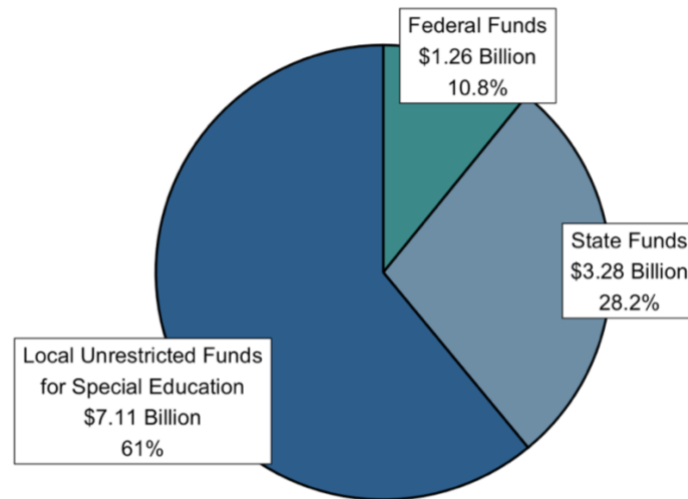
Although AB 602 base funding has provided the basis for California special education funding for more than 20 years, it is just one part of the full special education funding system. In addition to AB 602 base funding, California provides supplemental AB 602 funding streams for specific purposes. Additionally, each year, the state legislature makes available new and different funds — outside AB 602 funding — for special education, many of which become ongoing increases to the state’s budget.

Thus, although California’s AB 602 funding system was intended to simply utilize a census-based allocation — to disincentivize overidentification of students with disabilities, as discussed in section 2 — the state’s funding system is, in fact, much more complex and allocates multiple supplementary funding streams based on student counts and other factors.

Sources of Funding

Funding for special education is meant to cover the additional costs that are associated with educating students with disabilities due to their disability. In California, there are three main sources of special education funding: (1) the federal government, as part of IDEA; (2) the state; and (3) school district and charter school LEAs. For the school year 2018/19, California received \$1.26 billion in special education funding from the federal government, the state allocated \$3.28 billion for special education, and LEAs, using unrestricted funds, covered the remaining \$7.11 billion in special education costs (fig. 10). At 61 percent, LEAs were covering by far the largest proportion of special education costs.

Figure 10. Funding sources for special education in California, 2018/19



Note. CDE Financial Data for the 2018/19 school year. Federal funds are IDEA Part B funds. State funds include AB 602 base funds, AB 602 supplemental funding streams, and other state special education funds. Local unrestricted funds are LEA funds from unrestricted sources used for special education.

LEAs use increasingly larger portions of their unrestricted state and local funds to pay for the services required by students' IEPs, supplemented by federal and state special education funding. This often presents LEA leaders with a difficult choice: to cover the costs by reducing available funds for other services or to curb special education spending, potentially increasing their risk of litigation and of declining quality in special education services. Some LEAs have sought ways to curb spending by creating cost efficiencies while staying within the bounds of federal requirements. For example, some have found that providing specialized programs in-house can be more cost-efficient than contracting with outside providers (Krausen et al., 2018). But IDEA requirements are such that there are fewer opportunities to reduce special education costs, compared with educational costs in general. Most often, LEAs find their hands tied, having to give precedence to special education services over other budget priorities, however steep the costs of those services might be. Even so, cost pressures faced by LEAs under AB 602 have correlated with rising rates of legal conflict with parents. Between 2006/07 and 2016/17, California saw an 84 percent increase in the number of special education disputes filed with the CDE, and as of May 2018, the rate of due process complaints filed by parents in California was double the national average, at 60 due process complaints per 10,000 students compared with 27 complaints per 10,000 students (U.S. Department of Education, Office of Special Education and Rehabilitative Services, 2019a). Of the 114 special education disputes¹⁴ heard by California's Office of Administrative Hearings in 2017, the student prevailed or there was a split decision in just over half (55 percent) of cases (Adams & Associates, 2018), suggesting LEAs are not always able to meet the needs of children with disabilities and their families..

¹⁴ The number of special education disputes is greater than the number of due process claims, as not all disputes are filed as due process complaints.

Planning and Reporting for Different Sources of Funding

The planning and reporting related to federal and state funds for special education are separate from the planning and reporting related to LEA funding for general education (primarily a combination of LCFF state funding and local tax revenue). The use of LEA funding for programmatic support for all students is reported through the LEA's local control and accountability plan (LCAP), whereas the use of federal and state funding exclusively for special education is reported through each SELPA's funding allocation plan. This means that LEA members of SELPA governing boards plan for the education of students with disabilities — representing nearly 12 percent of their students, on average — separately from the education of the rest of their student population. However, because 60 percent of California's students with disabilities spend at least 80 percent of their school day in a general education classroom, the significant majority of their instruction is provided through the core instructional programming funded by the LCFF and by other state and local funds intended for all students and documented in the LCAP. In 2018, California's Education Code was amended to address this misalignment: It did so by requiring that each SELPA governing board cooperate with its county office of education to ensure that the SELPA's local plan is compatible with the LCAP(s) of member LEAs within the county (EC § 56195.3). However, the extent of this cooperation is not defined in the code.

Types of Funding

This report focuses primarily on AB 602 funds, the largest state funding stream for special education. The AB 602 funding formula establishes a base funding level for each SELPA. As described in section 2 of this report, this base level is largely determined by current ADA (i.e., K–12 student attendance) multiplied by a historical per-child measure of costs. The per-child cost measure varies by SELPA, although the state has increased allocations over time to make the per-student amount more equal across SELPAs. After the state calculates each SELPA's base amount, local special education property taxes (as defined in EC § 2572) are subtracted from the base amount.

AB 602

The term *AB 602* is frequently used by practitioners and policymakers to refer to California's special education funding formula as a whole — including both the ADA base amount component (~90% of total AB 602 funding) and the smaller, supplementary streams (~10% of total AB 602 funding). This report takes the same approach: Differences in specific funding streams are noted when relevant, but otherwise, references to AB 602 include all parts of the AB 602 funding.

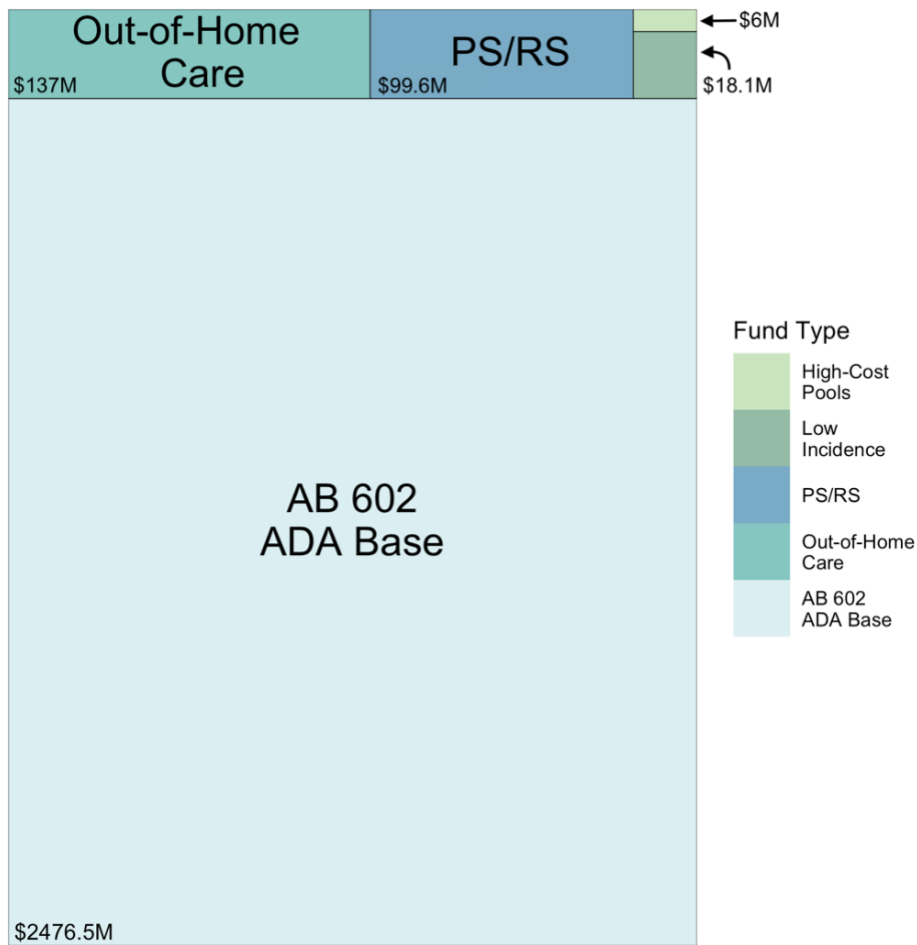
In addition to the AB 602 ADA base-level funding, AB 602 apportionments include four smaller, supplementary special education funding streams to address specific needs:

1. Program specialists and regional services (PS/RS) funding supports administration of the SELPA unit.
2. Out-of-home care funding supports residential placements.

3. Low-incidence disabilities funding provides additional funding for students with sensory and orthopedic disabilities.
4. High-cost pools help fund extraordinary costs associated with:
 - educationally related mental health services, including out-of-home residential services for necessary small SELPAs,¹⁵ and
 - placements in nonpublic, nonsectarian schools, including reimbursement for costs associated with pupils residing in licensed children’s institutions.

The last three streams have separate allocation formulas and expenditure requirements, with funding for out-of-home care and high-cost pools being based on actual student costs and having the most restricted expenditures.

Figure 11. California’s five special education funding streams under AB 602, 2018/19



Note. Data from California’s 2018/19 SELPA Special Education Funding Exhibits. The size of each rectangle represents the proportion of funds allocated from each funding stream (CDE, 2020g).

¹⁵ As defined in EC § 56212, a SELPA may be eligible for designation as a “necessary small SELPA” if its countywide K–12 ADA is under 15,000 students.

State High-Cost Pools

One of the AB 602 supplemental funding streams is a pair of high-cost pools. Funded at \$3 million each in state fiscal year 2018/19 (CDE, 2020f), the pools are intended to offset some of LEAs' or SELPAs' expenses associated with very high-cost residential or nonpublic placements for students. The first pool is the Necessary Small SELPAs Extraordinary Cost Pool for Mental Health Services (EC § 56212), which reimburses SELPAs designated as necessary small SELPAs for extraordinary costs associated with education-related mental health services, including out-of-home residential placements. The second cost pool is the Nonpublic School/Licensed Children's Institutions (NPS/LCI) Extraordinary Cost Pool (EC § 56836.21), which reimburses SELPAs for extraordinary costs of student placements in nonpublic schools and for the education-related costs of students residing in licensed children's institutions. Both of these pools have minimum cost thresholds for SELPAs to qualify for reimbursement. These thresholds are based on cost calculations from the 1997/98 fiscal year, with annual inflation adjustments (EC § 56836.21).

As part of this study, state leaders sought to understand how California's state high-cost pools compare with cost pools for special education in other states. To support this area of interest, a scan of state high-cost pool policies and a review of fiscal year 2018/19 budgets were conducted for the 10 largest states by total population. (The results of the review related to state-funded high-cost pools are included in appendix C.) The review found that five of the 10 largest states have pools to help defray LEA expenses for high-cost special education programs. Notably, some of the largest states by population — Texas, Florida, and Illinois — do not use high-cost pools.

To understand California's state high-cost pools in greater detail, the WestEd study calculated the per-pupil funding amount provided through each state's high-cost pools using the fiscal year 2019 budgets. Those states, with their total pool amount, total population of students with disabilities, and per-child (for ages 6–21) pool funding, are included in table 5.

The study team's calculation of the available high-cost pool funding per student with disability in each state reveals that California's high-cost pool funding (available through its two statewide pools) is the second lowest, with \$8.55 per student with a disability. New York and Pennsylvania, which, among the states with high-cost pools, have the largest populations of students with disabilities following California, invest \$2,277.93 and \$37.34 per student with a disability, respectively.

Table 5. Total high-cost pool amount, total number of students with disabilities aged 6–21, and high-cost pool funding per student with disability in the largest states by population (in order of per-student funding), state fiscal year 2018/19

STATE	STATE HIGH-COST POOL	STUDENTS WITH DISABILITIES AGED 6–21	STATE COST POOL FUNDING PER STUDENT
Georgia	\$1,551,946	200,450	\$7.74
California	\$6,000,000	701,812	\$8.55
Pennsylvania	\$10,862,473	290,896	\$37.34
North Carolina	\$40,044,718	181,547	\$220.58
New York	\$1,041,820,000	457,354	\$2,277.93

Source: State fiscal year 2018/19 budgets.

Note. The state high-cost pool for North Carolina includes projected amounts, as it does not have a line item in the budget and allocations are still being made. Projected numbers were provided to the study team by the North Carolina Department of Public Instruction upon request.

Pennsylvania has a cap on the amount of funding that LEAs can access through its high-cost pool. Although California does not have a cap on the amount of funding each SELPA can access through its two state high-cost pools, it does limit the amount available per application based on available funds and on the number of applications received by the state each year. Funds from the NPS/LCI Extraordinary Cost Pool are only made available when the cost of a student’s placement in a nonpublic school or licensed children’s institution is higher than the pool program’s established per-placement threshold amount, an amount that is different for SELPAs that are considered necessary small SELPAs. For example, the threshold amount for school year 2017/18 for SELPAs that were not considered necessary small SELPAs was \$76,964.93, whereas the amount for necessary small SELPAs was the lesser of \$76,964.93 or 1 percent of the SELPA’s subtotal apportionment (CDE, 2018a).

Similar requirements and thresholds are in place for the Necessary Small SELPAs Extraordinary Cost Pool for Mental Health. Costs of placements and services for single students that are in excess of the applicable threshold amount are eligible for reimbursement, and the threshold amount for the 2017/18 fiscal year was the same as for the NPS/LCI Extraordinary Cost Pool (CDE, 2020f). If the total reimbursable amount exceeds the state’s current year appropriation for the pool, funds are first used to reimburse residential costs, with claims for other mental health–related costs pro-rated by the number of applications the state receives. If claims for residential costs exceed the appropriation, they, too, are pro-rated by the number of applications, and any remaining claims are not reimbursed (CDE, 2018b).

SELPA directors report that the benefit of having the high-cost pools is outweighed by the burden of applying for funds from the pools, given the low amount of reimbursement compared with program costs, especially when factoring in the threshold and proration of reimbursements.

Additional Special Education Funding Streams Outside AB 602

In addition to the AB 602 base and supplemental funds, other ongoing and one-time funds flow to SELPAs and LEAs for special education and related services. For example, for the 2018/19 school year, an additional \$367 million outside AB 602 funds was distributed to SELPAs, based on ADA, for use solely in providing educationally related mental health services, including out-of-home residential services, required by an IEP (CDE, 2020e). Additional funds were also allocated for specific projects, including \$40 million for efforts to support students' successful transition to secondary school (CDE, 2019a), \$10 million to SELPAs for development of a system of support and technical assistance for LEAs (CDE, 2020b), and \$493 million in one-time funds for preschool services for children aged 3–5 with disabilities (CDE, 2019b). The one-time preschool funds were different from AB 602 funds in that, instead of being allocated based on census counts, they were allocated based on actual counts of students in that age range with disabilities. The preschool funds were also distributed directly to LEAs, not to SELPAs.

(For a table of all of California's special education funding streams, see appendix B.)

Section 4: California’s Special Education Funding System

This section describes in greater detail the structure of California’s special education funding system. To guide the description and analysis of California’s funding system, we describe a framework for examining the complexity of state funding systems and the key components that policymakers must consider. A central part of this framework is the state’s education funding formula, which consists of three key structural components: (1) allocation of funds, (2) distribution of funds, and (3) expected expenditures of funds. In this section, each of these three components is defined and explored in the context of California’s special education funding. Comparisons between California’s special education funding formula and the special education funding formulas in other states, as well as the LCFF, are also included in this section. The section concludes with an examination of two additional components of the framework: governance and external accountability.

Notably, each component of the state’s funding system represents an opportunity to communicate the state’s programmatic priorities to the field and to influence the implementation of programs and services for students with disabilities.

A Framework for Education Funding Policymaking

The features of America’s school funding systems have been well documented over previous decades (Odden & Picus, 2014). Existing research highlights key features of states’ school funding systems, including funding formulas (EdBuild, 2020; Parker, 2019; Willis et al., 2019; Verstegen, 2011); funding sources (NCES, 2020); the structure of school districts and intermediary organizations, including their roles and responsibilities (Campbell & Fullan, 2019); and how a state’s accountability and support system should be designed to ensure that LEAs meet fiscal and programmatic requirements (Elgart, 2016). Building on this prior research, the framework for education funding policymaking developed by the WestEd study team focuses on the roles, responsibilities, and communication of priorities embedded in an education funding system, including the relationship between the funding formula, governance structures, and external accountability systems. Policymaking for a state education funding system likely encompasses decisions around multiple funding streams — and in California, these decisions take place both at the state level and at the SELPA level.

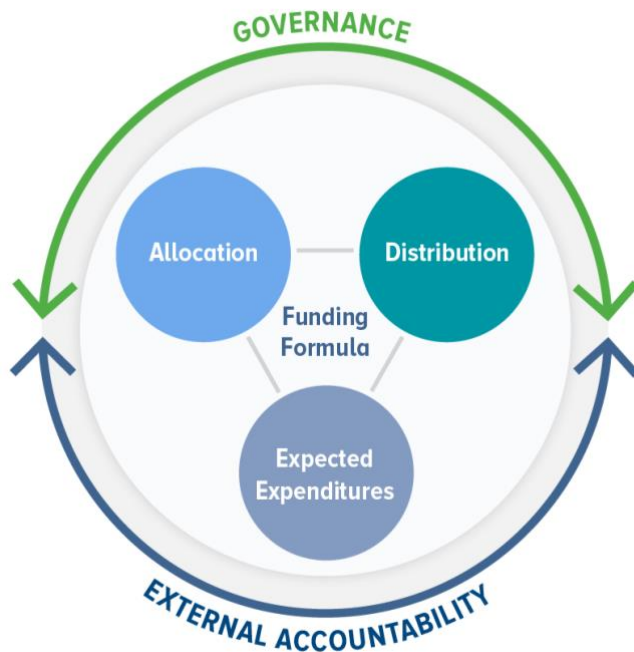
Figure 12 provides a visual representation of the framework, which can apply to all levels of an education funding system. At the center is the **funding formula**, broken into its three components: allocation,

distribution, and expected expenditures. Any given special education funding system may well have more than one funding formula; for example, California has separate formulas for AB 602 base funding, AB 602 supplemental formulas, and additional funding streams outside AB 602.

Encircling the funding formula are governance and external accountability, each of which plays a key role in the design and implementation of the formula. **Governance** refers to the structure by which an entity makes decisions and assigns responsibility to make decisions. **External accountability** refers to the structures (e.g., those created at the state and federal level) for providing oversight to ensure effective implementation of the funding formula and other statutory programmatic requirements. Both governance and external accountability affect the fidelity of implementation of the funding system and implementation of programs for students with disabilities. The governance and external accountability structures can also vary for each funding stream within the state’s funding system.

As shown in figure 12, governance and external accountability inform each other. In the case of special education, with its strong external accountability structures (e.g., procedural compliance-monitoring from the state and accountability through court cases), governance — i.e., decision-making around implementation — is more constrained than it is for other programs.

Figure 12: Framework for education funding policymaking



Funding Formula: Allocation, Distribution, and Expected Expenditures

At the heart of an education funding system is its funding formula, through which policymakers communicate decisions about how much funding to allocate, to whom it will be distributed, and how it is expected to be spent. Researchers over several decades have documented features of states' education funding formulas and have created well-known categorizations of these formulas (EdBuild, 2020; Parker, 2019; Versteegen, 2011). These categorizations include describing the basis of the state funding formula (e.g., student-based, resource-based, or program-based); the types of student characteristics that a formula takes into account (e.g., English learner, socioeconomically disadvantaged); and district characteristics (e.g., regional cost of living). The policymaking framework presented in this study is distinct from existing categorizations of funding formula components, and it adds new value because it breaks down the funding system into multiple components for which policymakers must make decisions and consider impact. The remainder of this section uses this framework as a guide for analyzing California's current special education funding system under AB 602.

The three funding formula components described in this study's framework correspond to state policymakers' key decision points when determining how to fund public education. That is, policymakers can (1) calculate the amount of funds that will be provided (allocation), (2) direct the funds to specific entities (distribution), and (3) establish and communicate expectations for how the funds will be spent (expected expenditures). Table 6 defines each component and provides information on how each is applied in AB 602.

Table 6. Funding formula component definitions

COMPONENT	DEFINITION	APPLICATION TO AB 602
Allocation	"Allocation" refers to the process for calculating the amount or proportion of funds provided to an entity (e.g., school, district, intermediary). Allocation amounts are generally calculated using unit counts (most frequently, a count of students or schools). These unit counts can be multiplied or adjusted based on a variety of student characteristics (e.g., disability type, English learner status) and/or other measures intended to create equity and/or stability (e.g., low property tax revenue, cost-of-living adjustments, prior funding levels).	The AB 602 base allocation funding for each SELPA is calculated using an aggregated count of all K–12 students (ADA) served by the SELPA's LEA members (or by the SELPA's LEA, in the case of single-LEA SELPAs), with that count multiplied by an adjusted historical measure of actual per-student costs, using cost data from December 1, 1999. Allocations of some supplemental AB 602 funds are calculated based on different units and measures. ¹⁶

¹⁶ For a table of the allocation, distribution, and expenditures for each of the AB 602 funds and supplemental special education funds in California, see appendix B.

Distribution	“Distribution” refers to the specific entities to which all or parts of the funds are directed.	All AB 602 base and supplemental funds are distributed to SELPAs. Multi-LEA SELPAs then allocate funds and distribute funds to LEAs.
Expected Expenditures	“Expected expenditures” refers to the expectations that are established for how funds will be spent, including any rules, regulations, and guidance on how funds should be used for a specific purpose.	AB 602 base funds may be spent on any special education expense. However, expenditures of some supplemental AB 602 funds are restricted to specific purposes.

Allocation

In the study team’s framework, “allocation” refers to the process for calculating the amount or proportion of funds provided to an entity (e.g., a school, a district, or an intermediary). The common allocation approaches across the United States have been well documented by the Education Commission of the States (ECS) (Parker, 2019) and by EdBuild (2020). But because state policies are subject to interpretation, different reviewers classify states’ varying approaches in different ways. Table 7 offers an interpretation of common allocation options using new and existing categories

Allocation amounts are calculated by dividing the total amount of available funds by a **unit count** (most frequently a count of students or of resource units, such as teachers) to get a per-unit allocation. In a very simple education funding model, the per-pupil allocation would be determined by dividing the total education appropriation in a state’s budget by the number of students enrolled in the state’s education system.

However, state education funding formulas are not that simple. Allocations become more complex when unit counts are adjusted by one or more **characteristics** (e.g., student disability type, English learner status) and/or **other measures** intended to create equity and/or stability (e.g., low property tax revenues, cost-of-living adjustments, prior funding levels). Unit counts and adjustments based on student or other characteristics are used together in different allocation approaches.

It is important to note that allocation approaches are not mutually exclusive. Most states use a combination of approaches to determine the amount of money allocated to the receiving entity. For example, most special education funding in California (the AB 602 base) is allocated based on each SELPA’s aggregated ADA (the unit count) — a census-based approach, as described in table 7. However, funding allocations are then multiplied by a rate based on historical costs of actual services provided under J-50 — that is, the multiple-weight approach used in California between 1980 and 1998.

Table 7. Common allocation approaches

ALLOCATION APPROACH	CHARACTERISTICS
Census-Based	Funding a fixed dollar amount based on a unit count of total enrollment, average daily membership, or average daily attendance. Total student count is the only factor.
Single Weight / Dollar Amount	Funding either a fixed dollar amount or a weighted amount that is determined by applying a single multiplier to a subgroup of students (e.g., the number of students with disabilities).
Multiple Weights / Dollar Amounts	Similar to the single weight / dollar amount approach, but instead of providing a fixed dollar amount or single weight, more than one weight or dollar amount are assigned based on different characteristics or factors (e.g., the number of students with disabilities in specific disability categories).
Resource-Based	Funding for a specific resource (e.g., teachers, counselors) based on a unit count that is guided by standard costs for each specific resource.
Program-Based	Funding for a specific program (e.g., Read by Grade 3), based on a unit count (e.g., number of participating schools) and the cost of the program.
Past Expenditure-Based	Funding based on a percentage of allowable expenditures in the prior year, typically up to a set percentage.
Other	Either funding based on a combination of unit counts and adjustments based on other factors or the lack of a systematic funding approach.

In California, AB 602 supplemental funding streams do not follow the same allocation formula used for its base amounts, a difference that contributes to the complexity of California’s funding formula. For the state’s high-cost pools, which reimburse SELPAs for some of the cost of serving high-cost students, allocations are based on the costs of the specific program for which reimbursement is sought. Other factors, such as SELPA size and per-pupil SELPA funding amounts, are also factored into the allocation amount. California’s out-of-home care supplemental funding stream, which provides funds for students residing in group homes and other facilities, is also provided through a program-based allocation, with funding allocations based on the cost, location, and capacity of licensed children’s institutions, rather than on the number of children served.

Determining the Year(s) of Data Used for Funding Formula Allocations

Alongside the unit count (e.g., number of students) and adjustment factors used in the allocation of funding, states must also decide the year(s) of data on which to base the allocation of funds. Some state and federal funding formulas allocate funds based on current data, whereas others use historical data, and still others use both. An example of a formula that uses multiple allocation approaches is the statutorily required three-part formula for states to allocate federal IDEA special education dollars for their subgrantees to serve students with disabilities aged 3–21: (1) the base amount derived from 1998 and 1999 data, (2) an allocation based on the current number of children enrolled in the subgrantee's jurisdiction, and (3) the subgrantee's current proportion of children living in poverty (34 CFR § 300.705).

Some formulas require use of historical, trend, or average data to discourage manipulation of current data to receive more funding (referred to as “maximization”). Historical data are considered more objective and are used to ensure that funding amounts cannot be unduly influenced by, for example, identifying additional students as eligible for special education when they would not otherwise be so identified. However, when historical data do not reflect current circumstances, their use can lead to funding inequities. Such is the case in California, where the billions of dollars allocated to SELPAs using current ADA counts are multiplied by funding rates calculated more than two decades ago (EC § 56836.08). Moreover, use of historical data assumes that those data were not manipulated at the time to maximize funding.

Decades-old measures and arbitrary thresholds are used in several of the smaller AB 602 funding streams (e.g., the cost thresholds for high-cost pool eligibility, which were calculated in the late 1990s, per EC § 56836.21).

Similarly, although many states allocate additional funding based on the size of LEAs — because, unlike larger districts, small LEAs are unable to benefit from economies of scale (ECS, 2019) — the cutoffs for what qualifies as a “small LEA” may be arbitrary or obsolete. Consequently, some LEAs today may be too small to take advantage of economies of scale, yet may not meet the decades-old threshold for qualifying as a small LEA and, thus, may miss out on essential funds. This concern holds true in California, where decades-old measures and arbitrary thresholds are used in several of the smaller AB 602 funding streams (e.g., the cost thresholds for high-cost pool eligibility, which were calculated in the late 1990s (EC § 56836.21).

Adjustments Based on Student Characteristics and Other Factors

California's formula for AB 602 base funding uses a census count, meaning that the formula does *not* take into account student characteristics, such as whether a student has a disability or the specific disability category.

However, California has created and maintained supplementary AB 602 funding streams that allocate funding based on specific student characteristics. For example, the supplementary funding stream for low-incidence disabilities is based on the actual count of students with qualifying disabilities. California's choice to provide such supplementary, targeted funding streams acknowledges a need for differentiating

allocations based on the wide variety of needs of students with disabilities. Likewise, the distribution of AB 602 funds to and through SELPAs, which use various weights based on need, indicates a recognition that the needs of students with disabilities and the costs associated with providing comprehensive programs vary greatly across California (see section 5).

As part of a recent cost adequacy study for the state of Maryland, researchers from WestEd and Augenblick, Palaich, and Associates examined the various ways that states and other countries fund special education (Willis et al., 2019). The study found that most states and countries differentiate funding based on either disability, disability category, or student need, whereas in California, less than 1 percent of special education funding is based on these factors.¹⁷ Instead, each SELPA is funded primarily on the ADA (K–12 student attendance) of its member LEA(s), rolled up to the SELPA level.

In the Maryland study, the researchers also analyzed the association between state funding policies and student achievement gains in literacy, numeracy, and seven measures of social-emotional skills. The study found that differentiating revenue by a characteristic such as disability category and providing revenue based on the actual count of students with disabilities — as opposed to a fixed amount per district or a census-based system — are associated with higher numeracy outcomes and some improved social-emotional development in elementary school students (Willis et al., 2019).

As the research team explores potential allocation models in the next stage of the study, researchers will consider how introducing funding adjustments based on student characteristics or other factors affecting service cost (e.g., LEA size or cost of living) would impact funding for each LEA. For example, as noted in section 1, charter school LEAs serve fewer students with disabilities on average than traditional LEAs, so adjusting funding levels based on student characteristics (e.g., number of students with disabilities, rather than total student count) might then provide fewer dollars to charter LEAs on average. However, using only the count of students with disabilities excludes costs such as assessment and evaluation for students ultimately found ineligible for special education. The next report will include an analysis of the potential benefits and drawbacks of multiple approaches.

¹⁷ The 1 percent referred to here includes funding for infant/toddler services, workability, low-incidence disabilities, and state high-cost pools.

DISTRIBUTION

Compared with funding allocation, distribution of funding — which defines where the funds flow, or which specific entities receive the funds — is less frequently discussed. Yet it is an equally important component of a funding system because the receipt of funds in special education often translates to responsibility for compliance with special education law. States can identify a variety of entities as responsible for providing education programs for children with disabilities; accordingly, states may distribute special education funds to state departments of education, other state and public agencies, directly to LEAs, and, in California, to LEAs through SELPAs. The receiving entity is sometimes, but not always, connected to the measures (e.g., student counts) on which the funding allocation is based. For example, when calculating a high-cost pool apportionment, a state may use the local enrollment of LEAs multiplied by a per-pupil amount and aggregated to the state level. In this example, even though the LEA's total enrollment determines the size of the pool, the funding may be distributed to the state department of education to administer, rather than to all LEAs across the state.

In California's current system, a change in the state's own *allocation* mechanisms may not directly influence how funds flow to LEAs unless state-level changes are also made to how funds are *distributed* — or to the requirements for how multi-LEA SELPAs allocate funds.

California's AB 602 funds are distributed to SELPAs. These entities meet the state and federal definitions of an LEA. SELPAs also meet the federal definition of an educational service agency (ESA), which is defined as a "regional [agency] ... authorized under state law to develop, manage, and provide services or programs to LEAs and recognized as an administrative agency for purposes of the provision of special education" (34 § CFR 300.12).

Thirty-eight states use ESAs for special education–related services, but despite their widespread use, California's approach of distributing special education funds exclusively to and through ESAs is uncommon. More frequently, LEA membership in an ESA is voluntary, and state special education funds are distributed directly to LEAs. In these cases, ESAs are typically supported by membership fees or fees for specific services and are often referred to as "cooperatives" (Ahearn, 2006; Keane, 2001). The fact that most states do not distribute funds to ESAs may be due to the complex fiscal and programmatic requirements of IDEA, described in more detail in this report's subsection on governance. Many states align the distribution of funds and responsibility for 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. As discussed in this report's subsection on governance, in California, SELPA responsibility for IDEA requirements is unclear.

In California, the state's distribution mechanism gives it relatively little influence over the amounts of funding received by most LEAs — specifically, those that are members of multi-LEA SELPAs. This is because multi-LEA SELPAs, guided by their governing boards, allocate and distribute the funding they

receive from the state to member LEAs. To do so, each SELPA uses its own unique funding formula. Although a SELPA's formula is reviewed by the SELPA's county office of education, the state places no requirements on how the formula allocates funding (EC § 56140, § 56205). Consequently, California effectively has as many funding formulas as it has multi-LEA SELPAs, and the state has little to no influence over those formulas. This lack of state influence over how funds are allocated and distributed from multi-LEA SELPAs to LEAs means that, in California's current system, a change in the state's own *allocation* mechanisms may not directly influence how funds flow to LEAs unless state-level changes are also made to how funds are *distributed* — or to the requirements for how multi-LEA SELPAs allocate funds.

A more detailed description of how multi-LEA SELPAs currently allocate and distribute special education funding is provided in section 5.

EXPECTED EXPENDITURES

States may also establish the expected expenditures of funds to influence special education programmatic priorities. The bulk of special education expenditures are governed by two types of funding-related requirements described here as *required expenditures* and *restricted expenditures*. The level of restriction on funds is a major consideration for a funding formula, as it is closely connected to the accountability system. The more restricted the use of funds, the more effort is required to ensure adherence to those restrictions.

Required Expenditures

Unlike other students, each student with a disability is entitled to an IEP, the plan for how the LEA will meet the student's education needs and thus enable the student to make progress in the general education curriculum. An IEP is the blueprint for how the LEA will guarantee that a student receives FAPE in the LRE — the core programmatic requirements of IDEA, which LEAs are obligated to meet regardless of cost. LEAs are required to pay for all services in a student's IEP, and cost cannot be a factor in deciding which services are included in the IEP. In addition, IDEA has a specific requirement referred to as an LEA's maintenance of effort (MOE), which is to say that each year, an LEA must budget and spend at least the same amount of state and local funds as it spent the previous year (34 CFR § 300.203). The purpose of this requirement is to protect the contribution of nonfederal funds toward the education of students with disabilities from year to year.

Each of these mandates is a required expenditure — that is, an LEA must expend its funds on these mandates each year or face high-stakes penalties. These and other federal requirements can serve as disincentives for a district to explore innovative funding models, even when the state prioritizes such innovation by loosening its own spending restrictions for LEAs. Although IDEA does not require that the state's own special education funds be restricted to IEP services, fulfillment of these federally required expenditures is only possible with the use of state and local funds (see fig. 10, page 41).

Restricted Expenditures

Restricted expenditures mandate how an entity must spend its special education funding. Restricted funds are used throughout federal and state education systems — not just for special education — to preserve funding for specific priorities. Historically, many states have provided a large proportion of their funding through specific funding streams (frequently referred to as categorical funding) that could be used only to serve specific populations and/or fund specific education programs. In the past decade, however, states have been shifting away from funding systems that either prescribe or proscribe the use of funds, instead increasing local flexibility in general education spending (Smith et al., 2013). This trend is reflected in the LCFF, which expanded flexibility to a larger proportion of state funds, with the goal of providing a comprehensive system for serving students with additional needs, rather than siloed systems of student support based on students' eligibility for a program. However, even within the LCFF, supplemental and concentration funding for socioeconomically disadvantaged students, English learners, and foster youth must be used “to increase or improve” services for the students that generate those funds.

Mirroring this trend of increasing flexibility, the 2004 reauthorization of IDEA granted LEAs the ability to use a minimal portion of federal special education funding to develop and implement coordinated early intervening services (CEIS) for students who do not have IEPs but who struggle academically or behaviorally. As was true of other changes made to IDEA at the time, the goal of this new policy was to more closely align the education of children with disabilities with that of their same-age peers. Since then, multiple states have produced guidance on how IDEA, CEISs, Title, and state special education and general funds can be braided together to support students holistically.¹⁸ However, fewer than 1 percent of LEAs in the country have voluntarily used these flexibilities. This is due partly to LEAs needing all of those funds for required expenditures and partly to the additional reporting requirements that come with using funds more flexibly. More frequently, including in California, LEAs have used funds for comprehensive CEIS only when required to do so, after being identified as having significant disproportionality in the identification, placement, or discipline of students with disabilities by race or ethnicity.

One example of restricted expenditures in California's funding model is the funds provided for the educational costs of students with low-incidence disabilities. These funds are allocated to SELPAs based exclusively on the number of students who are identified in the deaf, hard of hearing, visually impaired, or orthopedically impaired disability categories. Other children who might have similar needs, but who are not in those categories, are not included in the count. The funds must be spent on services and materials for students in the qualifying disability categories; such expenditures may include interpreters, note takers, readers, transcribers, or others who provide specialized services to students with low-incidence disabilities and materials used for specialized equipment required for students to access their education (e.g., braille, AAC or AT devices, and specialized mobility chairs) (EC § 56026.5). This funding constitutes a small proportion of the overall special education funds received by a SELPA, but this restricted expenditure sends an important message about the needs of students with these qualifying conditions and the state's expectations for how they will be served.

¹⁸ See, for example, the state of Washington's guide *Unlocking Federal and State Program Funds to Support Student Success* (Washington Office of Superintendent of Public Instruction, 2020).

Despite some states' moves toward greater flexibility, special education funding remains the most commonly restricted category of funds (Smith et al., 2013). In California, about 94 percent of AB 602 funds may be spent on any special education expense, but these funds cannot be used to fund core or general instruction.

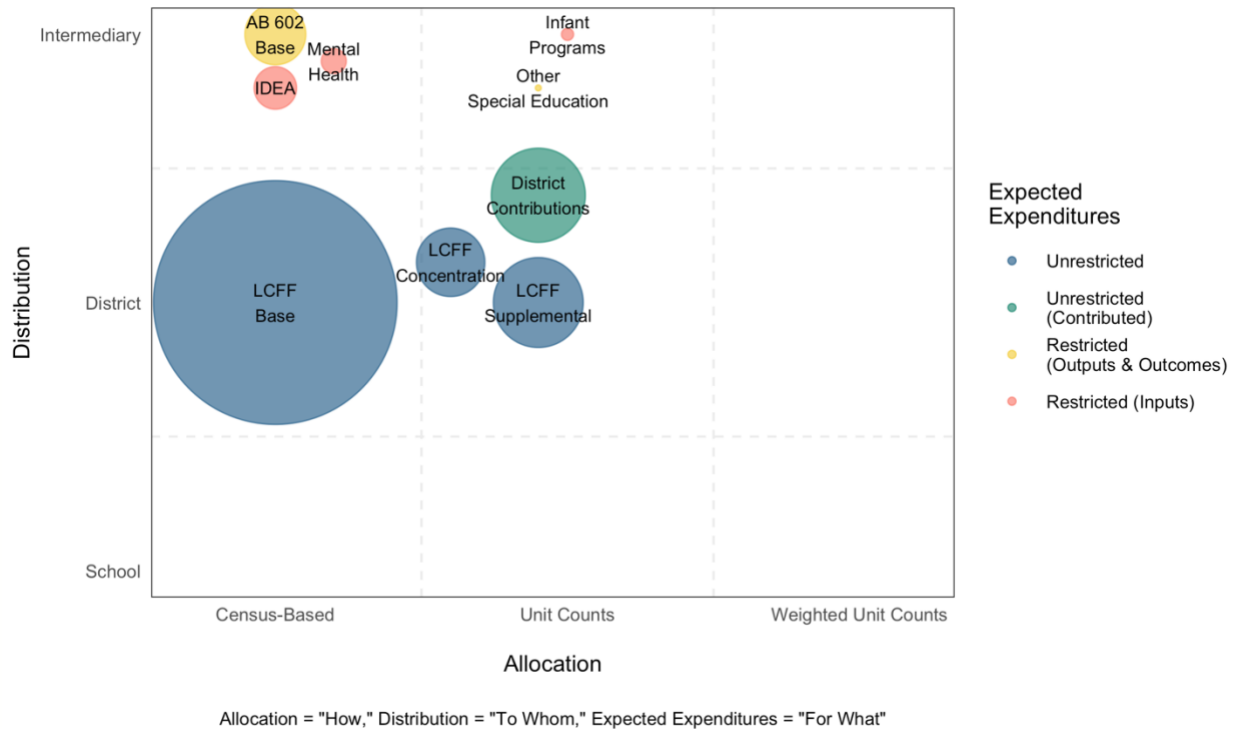
Like other funding policy decisions, spending restrictions involve a series of tradeoffs that may impact programmatic priorities. One benefit of restricting state funds for use on special education is that it ensures these funds will be used to serve their intended population: students with disabilities. One drawback is that it limits the flexibility of an LEA to blend funds together to develop early intervention programs for students not yet identified for special education, which, were it offered to more students, might improve outcomes for this student population in the long run. Furthermore, as described earlier, an LEA is already limited in its flexibility because of required expenditures under federal law.

Visualizing an Education Funding Formula to Understand Policy Choices

Having described the different components of an education funding formula and their implications for California's AB 602 special education funding formula, visualizing these components can further enhance understanding of how various funding streams relate to one another and how they are presented to practitioners tasked with managing those resources.

Figure 13 depicts how California's special education funding streams, alongside LCFF funding streams, relate to the three components of an education funding formula: allocation, distribution, and expected expenditures. Each circle represents a single funding stream (e.g., AB 602 base funding), and the size of each circle represents its proportion of resources relative to the other circles. Each circle is then mapped on the graph, with the allocation decision plotted on the x-axis, the distribution decision plotted on the y-axis, and the color of the circle representing the type of expected expenditures (listed to the right of the graph).

Figure 13. California’s education funding streams (selected resources) in relation to allocation, distribution, and expected expenditures



Plotting each of these individual funding streams illustrates the clear distinction in the distribution of California’s LCFF funding versus special education funding. Another notable observation is that both formulas allocate the vast majority of resources on a census basis, but both formulas allocate supplements based on actual student counts.

The Funding System’s Governance

Governance, a critical component of any funding system, is defined as “the act or process of governing or overseeing the control and direction of something (such as a country or an organization)” (Merriam-Webster, n.d.). In California, each of the following entities have some role in policymaking or decision-making for special education: the legislature, the State Superintendent of Public Instruction, the State Board of Education, the California Department of Education, the California Department of Health and Human Services, county offices of education, SELPAs, school districts, charter management organizations, charter schools, traditional public schools, and classrooms. Each of these entities wields some degree of power and makes decisions that influence California’s education system.

When designing or redesigning their education funding system, policymakers must consider the implications for existing local governance and how the new policies may increase or restrict the opportunities for governance. As described and illustrated earlier in this study’s framework for education funding policymaking (fig. 12), external accountability mechanisms impact the authority for governance at

the local level to make implementation decisions. For example, when states place fewer restrictions on the expected expenditures of state special education funds, they decrease the need for external accountability to ensure compliance, which leads to an increase in authority and opportunities for governance and decision-making by local leaders, including opportunities to coordinate school improvement priorities across programs.

Under IDEA, states have considerable latitude to create local governance structures for special education nested within the larger state governance system. States use education statutes to clearly delineate special education responsibilities for the state, regional entities, and LEAs. For example, as noted earlier, California's EC § 56195.1 requires each school district and charter school LEA to develop its own special education local plan or to develop a plan in conjunction with other LEAs (through a multi-LEA SELPA) for the education of children with disabilities within its jurisdiction. The plan must describe governance and administration of the plan — in single-LEA SELPAs, the individual responsible for administration of the plan, and in multi-LEA SELPAs, the entity's governing body. All plans must also identify the elected officials to whom the SELPA's administrative individual or governing body is responsible (EC § 56205). One part of the local plan for multi-LEA SELPAs is the funding allocation plan, described in more detail in section 5. The education code governing the special education local plan requirements gives authority to an LEA or a group of LEAs to establish a "system for determining the responsibility of participating agencies for the education of each individual with exceptional needs residing in the special education local plan area" (EC § 56195.1).

In other words, California's Education Code delegates the authority to establish responsibility for FAPE, rather than assigning it to a specific entity. This failure to clearly distinguish responsibility at the state level creates a splintered governance structure between county offices of education, SELPAs, and LEAs. In California, the issue of responsibility is further confounded by conflicting guidance. For example, on the one hand, the state education code establishes that each SELPA submitting a local plan must ensure conformity with IDEA, including the requirements to provide FAPE (EC § 56205, §56360), and the CDE website states that the SELPA administrator is responsible for ensuring that all individuals with disabilities receive FAPE in the LRE (CDE, 2020b). On the other hand, the education code also refers to "the local educational agency" as being responsible for compliance with IDEA, including the requirement to provide FAPE. Meanwhile, the definition of an LEA in California is broad: "a school district, a county office of education, a nonprofit charter school participating as a member of a special education local plan area, or a special education local plan area" (EC § 56026.3). California's data collection system does provide instruction for assigning students to an LEA for reporting purposes, but the designation of a district for special education accountability does not appear to assign FAPE and is not included in the education code.

Perhaps the most clearly defined responsibility for FAPE in California relates to charter schools. Charter schools choose whether to belong to an LEA or serve as their own LEA for special education purposes (see appendix F). Per CDE guidance, when a charter school is part of an LEA such as a school district (as opposed to serving as its own LEA) for special education purposes, then the LEA it belongs to is responsible for ensuring that children with disabilities enrolled in the charter school receive FAPE (Adams & Schweizer, 2017). When a charter school operates as its own LEA for special education purposes as a

member of a multi-LEA SELPA, the charter school LEA is solely responsible for implementing all state and federal special education requirements and for complying with all applicable laws and regulations pertaining to students with disabilities (Adams & Schweizer, 2017). Such clear guidance is not available for SELPAs and non-charter LEAs.

Governance and, as it relates to special education, the delegation of responsibility for FAPE, closely connect to the three components of a funding formula. For example, a disconnect between distribution and governance — as is occurring in California, with most funds distributed to SELPAs, but with conflicting guidance over responsibility for FAPE — can lead to confusion and decrease the likelihood of implementation of IDEA as expected by policymakers. In contrast, a transparent definition of governance that assigns clear responsibility for FAPE can help the state provide targeted technical assistance related to implementation of IDEA, and it can help parents and families know which entity is responsible for their child’s education if they need to seek assistance or if they allege a violation of their rights.

The Funding System’s External Accountability

The final component of the framework for education funding policymaking is external accountability. Abelman and Elmore (1999) describe accountability as “the variety of formal and informal ways by which people in schools give an account of their actions inside or outside the school to someone in a position of formal authority” (p. 4). For special education, the actions of schools are monitored very closely and on multiple levels, typically aggregated to the LEA level for purposes of state and federal monitoring and reporting.

The unique nature of special education — specifically, the individual entitlement for each student with a disability — necessitates very strong federal and state accountability and support systems to ensure the appropriate use of special education funds and compliance with IDEA and state programmatic requirements. The primary foci of state accountability and support systems, established in IDEA at 34 CFR §300.600(b), are:

“(1) Improving educational results and functional outcomes for all children with disabilities; and (2) ensuring that public agencies meet the program requirements under Part B of the Act, with a particular emphasis on those requirements that are most closely related to improving educational results for children with disabilities.”

The CDE uses its Quality Assurance process to monitor implementation of IDEA and provide resources to LEAs to improve education outcomes for students with disabilities while ensuring compliance with state and federal laws and regulations. The CDE’s focused monitoring and technical assistance (FMTA) consultants are assigned geographically to align with the 11 California County Superintendents Educational Services Association service regions. The FMTA consultants are responsible for coordinating all monitoring and technical assistance activities for LEAs and SELPAs in their assigned counties (CDE, 2020c). CDE monitoring activities are grounded in collecting IDEA implementation data from LEAs, determining whether the LEAs are meeting IDEA requirements, and providing technical assistance and

intervention to LEAs that do not meet them (including districts that disproportionately, by race and ethnicity, identify students for special education).

Additional external accountability is established in the CDE's dispute resolution procedures for processing complaints about special education service, as well as through the courts. When corrective actions are issued through any of these mechanisms, they require both child-specific and systemic corrections, which may require redirection of resources and limit the decision-making opportunities of LEAs and local programs. This external accountability can thus limit opportunities for local governance and decision-making. Meanwhile, the increasing need to coordinate services for students across programs necessitates discussions about how to create flexibilities within the external accountability systems.

Communicating State Priorities Through the Funding System

When designing or modifying a special education funding system, states make decisions about allocation, distribution, and expected expenditures in relation to the state's priorities, because each component can impact LEA decision-making about budgets and programs. For example, if a state allocates a higher amount of funding based on student placement (e.g., additional funding is allocated to LEAs for each student who is placed in a general education classroom for at least 80 percent of the day), the state may expect to see an increase in students placed in that setting.

In addition to considering the impact of each component, states should also consider the interactions of the components, including which decisions related to one particular component may limit or expand options available to the state in relation to the other components. For example, if a state wants to communicate that early intervention is a priority and, thus, increases the flexibility around expected expenditures and makes special education funds available to serve students who are at risk (rather than solely for students who are already identified with a disability), that change may alter the state's options for distribution. Under that new system, for example, it would no longer be reasonable for the state to distribute those funds to an entity that serves only eligible students with disabilities. In fact, when considering its priorities, a state may find it helpful to consider expected expenditures first, rather than allocation, even though allocation is the more traditional starting point in developing or rethinking a funding formula.

Regardless of how it's designed, every state special education funding system implicitly and explicitly communicates a set of priorities to the field. For example, a census-based formula communicates an assumption that rates of disability and costs of providing services to students are similar across a state and within a district — regardless of local contexts or the needs of individual students. By failing to account for variations in student need and cost as established in section 1, this presumption may communicate to practitioners that cost efficiency takes precedence over differentiating services based on student need. In contrast, a weighted system that uses student placement to determine a per-pupil amount signals that the state is willing to help fund higher-cost plans and services; however, it could also unintentionally incentivize the development of higher-cost plans for students.

In both cases, the funding formula could influence practitioner behavior, but the value of this influence depends on how well the measures align with state and local priorities. For example, as noted earlier, if a state wants to prioritize development of more inclusive general education environments, the state could offer a substantial increase in an LEA's allocation for students who spend more than a set threshold of time in the general education environment. However, if the state and local school systems do not also prioritize professional development on inclusive practices and ensure that general education teachers have the capacity to accommodate students with disabilities in general education classrooms, then the funding incentive likely will not lead to improved outcomes for students with disabilities.

Section 5: Role of Multi-LEA SELPAs in the Special Education Funding System

Multi-LEA SELPAs play a significant role in all five components of the education funding policymaking framework: allocation, distribution, expected expenditures, governance, and external accountability.

This section analyzes how each multi-LEA SELPA administers its unique special education funding system to provide funding and services to LEAs. When a large LEA operates as its own SELPA, the matter is simple; the SELPA's entire funding amount goes to support the single LEA's special education programs. The process is less straightforward for multi-LEA SELPAs, which serve as a special education funding intermediary between the state and a consortium of smaller LEAs that are located within a SELPA's geographic region or, in some instances, that share another characteristic (e.g., being charter LEAs). Each of these multi-LEA SELPAs represents its own unique funding system, with wide variation across the state.

SELPAs' Special Education Plans

How a multi-LEA SELPA intends to handle special education funds received on behalf of the students enrolled in its member LEAs is documented in the special education plan — known as the local plan — submitted annually to the CDE. As noted previously, all LEAs are required to develop a *special education local plan* (local plan) on their own or to develop a plan in conjunction with other LEAs (through a multi-LEA SELPA) that explains how the SELPA will provide or coordinate special education services in the upcoming year. The local plan includes both a special education budget and an allocation plan (EC § 56195.1) that outline how funds will be allocated and distributed by the SELPA to best support implementation of the overall local plan. Multi-LEA SELPA plans report how the SELPA makes funding decisions on behalf of multiple LEAs and the students served by that SELPA.

Other than the basic requirement for a local plan and a requirement that all special education dollars be spent only for special education, multi-LEAs' intermediary role comes with great latitude. To start, each may use its own funding formula for how to allocate and distribute funding. At one end of the spectrum, a SELPA may send all available funds (except those used for SELPA administration) to member LEAs for their use in supporting local special education programs and services. At the other end of the spectrum, a SELPA may directly or indirectly provide all special education programs and services on a regional or centralized basis and thus retain all state and federal funds to cover its costs in doing so. This study found that SELPAs range widely in their special education plans and funding approaches, with most using a combination of those two approaches. Ultimately, California's students with disabilities may receive

services that are coordinated and/or delivered by their school, by their LEA or another LEA, by their county office of education, by a SELPA's administrative unit (AU), and/or by a third party.

Few studies have attempted to examine in depth what actually happens once each SELPA receives state special education funds. One study that did, however, was a 2016 review of multi-LEA SELPA local plans conducted by the Public Policy Institute of California (Hill et al.). Based on the plans they reviewed, those researchers found that (1) most SELPA budgets offered little detail about how funds were to be used; (2) budgets were seldom posted on the SELPA websites; (3) SELPAs allocated funds in significantly different ways; and (4) regional services offered by SELPAs (e.g., training staff, arranging regional classes that provide affordable options for serving students, particularly those who require uncommon educational services) differed in scope and size.

This section — which draws on the research team's analyses of survey responses from SELPA administrators and of 20 multi-LEA SELPA allocation plans — paints the complex, and sometimes opaque, picture of how California's multi-LEA SELPAs in particular carry out their responsibilities. The analyses were guided by the framework for education funding policymaking presented in section 4, and the results are presented accordingly, starting with the funding formula component.

Funding Formula: Allocation, Distribution, and Expected Expenditures

The governing board of each multi-LEA SELPA determines how special education funds received by the SELPA will be allocated and distributed, and the board sets or communicates expectations for how the dollars will be spent. Consistent with the degree of autonomy these boards have, the study team's analysis shows wide variation in SELPAs' funding formulas.

This finding is significant because in their role as intermediary for the state's special education funds, multi-LEA SELPAs may also serve as a de facto mechanism for communicating the state's programmatic priorities to LEAs. Understanding the SELPA's role and directing it as needed are important for the state to consider as it makes policy decisions to communicate its vision and priorities (e.g., by providing additional funding for students spending more time in general education classrooms if greater inclusion is a priority). SELPAs' current latitude in establishing and directing their own unique funding systems means that investments ultimately reflect the decisions made by the SELPA, rather than the state.

Allocation

As noted previously, as part of a SELPA's broader local plan, the SELPA's governing board develops an allocation plan describing how it will calculate the amount of funds retained by the SELPA and the amount passed to member LEAs. This includes determining how the SELPA will use unit counts and student characteristics or other factors to calculate allocations. SELPAs' allocation plans are independent from the state's allocation formula and are developed after the state has allocated and distributed funds to the SELPA.

The study team’s analysis found that SELPAs use a range of allocation approaches. The particular combination of approaches used differs by SELPA and, in some instances, differs by funding stream (e.g., out-of-home care funds) within a given SELPA (table 8). The team also found that SELPAs’ allocation plans vary in the degree of transparency with which allocation decisions are made. Some allocation plans include a running history of the decisions made by the governing boards since the late 1990s, offering a glimpse into the layering of funding (e.g., complex memorandums of understanding to account for unequal funding rates) and programmatic policies that have occurred across more than two decades. This layering makes some multi-LEA SELPAs’ allocation plans extremely complex and difficult to decipher. Furthermore, 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), others provide no details as to the amount of funding distributed or the methods used to calculate amounts for each LEA.

The complexity of allocation plans may result, at least in part, from extensive state requirements for local plans that are coupled with limited requirements for standard plan reporting (EC § 56195.7 and § 56205). Beginning partially in July 2020 and in full in July 2021, the CDE is requiring additional standardized reporting for SELPA allocation plans, specifically through the use of a budget-reporting template. The template will require standardized quantitative reporting, including revenue sources, budget items by object code, and SELPA operating expenditures, which should increase the transparency of SELPA allocation plans. However, the section describing the funding decisions (e.g., how allocation and distribution amounts were determined) consists of two open-ended prompts intended to capture the many different ways that SELPAs allocate and distribute funds: (1) “Describe the basic premise of the SELPA Allocation Plan for distributing dollars as closely as possible to how they are earned” and (2) “Describe how the SELPA distributes IDEA revenues to the LEAs, including the models used to provide services to member LEAs.” Given the broad prompts, diverse combinations of allocation approaches, and various different ways of describing these approaches, responses to these prompts may not lead to increased transparency of allocation plans for state special education funding.

Despite the overall opacity of the SELPA allocation plans reviewed for this study, several patterns emerged in the research team’s analysis. Examples of the SELPAs’ most frequently used allocation approaches are summarized in table 8, which uses the same categories from the state allocation approaches table in section 4 (table 7, p. 50), with SELPA-level examples provided. These allocation approaches are not mutually exclusive within a SELPA, and many of the allocation plans reviewed used multiple approaches, each applied to different funding streams and even portions of funding streams. The examples of how different allocation approaches can be used within one SELPA allocation plan demonstrate how the state’s primarily census-based allocation of funding to SELPAs frequently transforms into a much more complex combination of allocation approaches as the SELPA determines how to pass the funds on to LEAs.

Table 8. Examples of multi-LEA SELPA allocation approaches for passing funding on to LEA members

ALLOCATION APPROACH	EXAMPLES OF HOW MULTI-LEA SELPAS APPLY ALLOCATION APPROACHES WHEN CALCULATING FUNDING FOR INDIVIDUAL LEA MEMBERS
Census-Based	<p>Funding a fixed dollar amount based on the percentage of a SELPA's ADA served by the given LEA member (e.g., an LEA whose ADA accounts for 15 percent of the SELPA's ADA receives 15 percent of the available funding)</p> <p>Funding either a minimum base amount or a per-pupil rate using an ADA threshold (e.g., LEAs with an ADA under 900 receive a flat amount of X dollars as a base or a per-pupil rate of X dollars)</p> <p>Funding a preschool allocation based on K–6 ADA</p>
Single Weight / Dollar Amount	<p>In addition to base funding, funding either a fixed dollar amount or an amount determined by applying a single multiplier to the number of children with disabilities</p>
Multiple Weights / Dollar Amounts	<p>In addition to base funding, funding either multiple fixed dollar amounts or amounts determined by applying a series of multipliers to:</p> <ul style="list-style-type: none"> The number of children with a primary eligibility category of autism The number of children with a primary eligibility category of speech and language impairment The number of children with a primary eligibility category that meets the definition of severely disabled under EC § 56030.5 The number of children aged 3–5 qualifying as severely disabled The number of students with mental health services on their IEPs The number of children with a primary eligibility category that meets the definition of low incidence under EC § 56026.5
Resource-Based	<p>Funding based on payment for a certain number of specific education resources (e.g., teachers or classroom units)</p> <p>A specific number of fully funded or percentage-funded slots for residential placements and/or children residing in licensed children's institutions</p>
Program-Based	<p>Funding based on payment for specific programs, such as:</p> <ul style="list-style-type: none"> Professional development Independent study programs (based on the number of students enrolled in such programs)

Past Expenditure–
Based

Funding based on a percentage of allowable expenditures in the prior year, typically capped by an amount or a set percentage

An allowed set cost for a specific program or service (e.g., applied behavior analysis for students with autism) multiplied by the number of children enrolled in the program or service in the prior year

The cost of low-incidence services and/or equipment in a prior year

The education costs for children in foster care in a prior year

Notably, analysis of SELPA allocation plans revealed that many SELPAs currently weight at least some allocations by disability category, rather than allocating funds according to the state’s census-based allocation. The fact that their governing boards choose to allocate funds in a variety of ways seems to suggest that differentiation of support based on student need may better meet the needs of member LEAs.

The fact that multi-LEA SELPA governing boards choose to allocate funds in a variety of ways seems to suggest that differentiation of support based on student need may better meet the needs of member LEAs.

Distribution

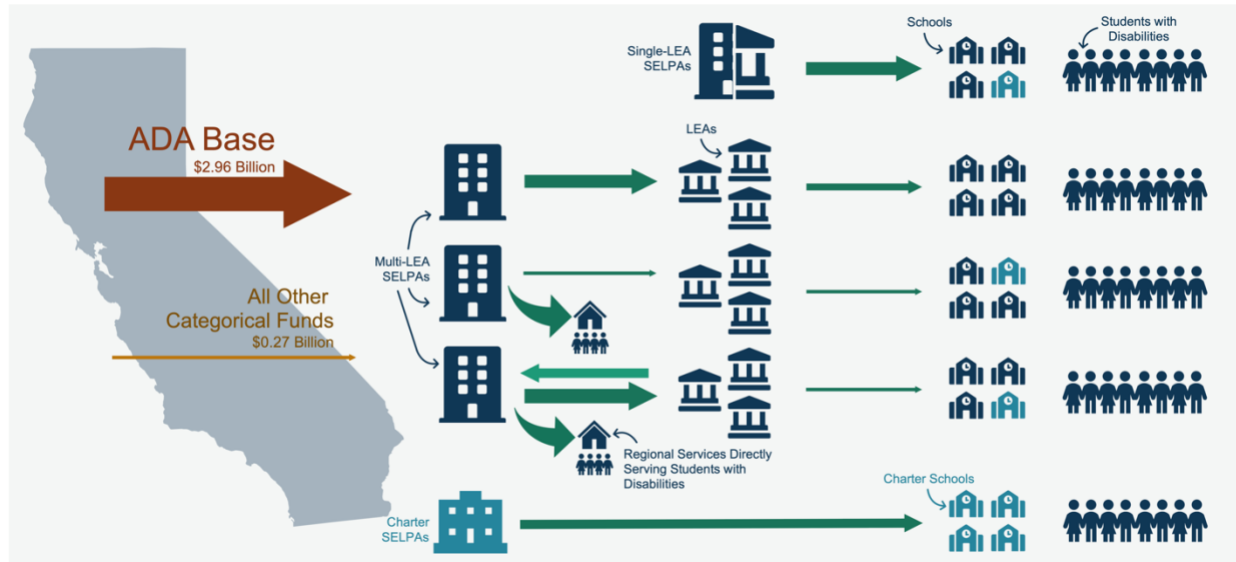
Multi-LEA SELPAs distribute funds to the SELPA AU (i.e., retain funds), to their member LEAs, to county offices of education (COEs), and to third-party providers. According to the study team’s review of allocation plans, and as illustrated in figure 14, many SELPAs fund SELPA administration (e.g., AU staff) and some regional programs and services (i.e., shared special education classrooms and itinerant staff) before any distribution to LEAs occurs. The field sometimes refers to this allocation as an “off the top” reduction because it refers to a distribution from the available funds that occurs before any funds are divided among LEA members. Some SELPA allocation plans refer to this distribution as a “priority allotment” or “priority allocation.” This report uses the term *priority distribution*. Another way of thinking about priority distribution is as a distribution of services rather than funds; that is, some SELPAs make services available in lieu of funds (e.g., funds for low-incidence disabilities are not distributed to LEAs directly, but are used to pay for the salaries of teachers of the deaf and blind whose time is allocated to LEAs based on the number of students needing their services). In this way, priority distributions restrict the use of state-allocated funds to a specific service agreed upon in the local plan.

Figure 14 depicts the process by which California’s special education funds ultimately reach students with disabilities. The ADA base funding and all other categorical funding flow to single-LEA SELPAs, multi-LEA SELPAs, or charter SELPAs.¹⁹ Single-LEA SELPAs provide funds to schools directly. Multi-LEA SELPAs use funds for regional services that directly serve students with disabilities and/or distribute funds to LEAs, which then provide funds to schools. Charter SELPAs provide funds to member charter

¹⁹ Charter SELPAs refer to SELPAs that only serve charter LEAs. As described in detail in appendix F, charter schools may serve as LEAs for purposes of special education or may be schools of a district. Charter LEAs for purposes of special education may belong to charter or multi-LEA SELPAs.

school LEAs. In each scenario, this flow of funds is used to provide special education and related services to students with disabilities.

Figure 14. How California funds flow from the state to services for students with disabilities



PRIORITY DISTRIBUTIONS: SELPA ADMINISTRATIVE COSTS

When asked what is included in administrative costs, SELPA administrators responding to the survey most frequently cited the following:

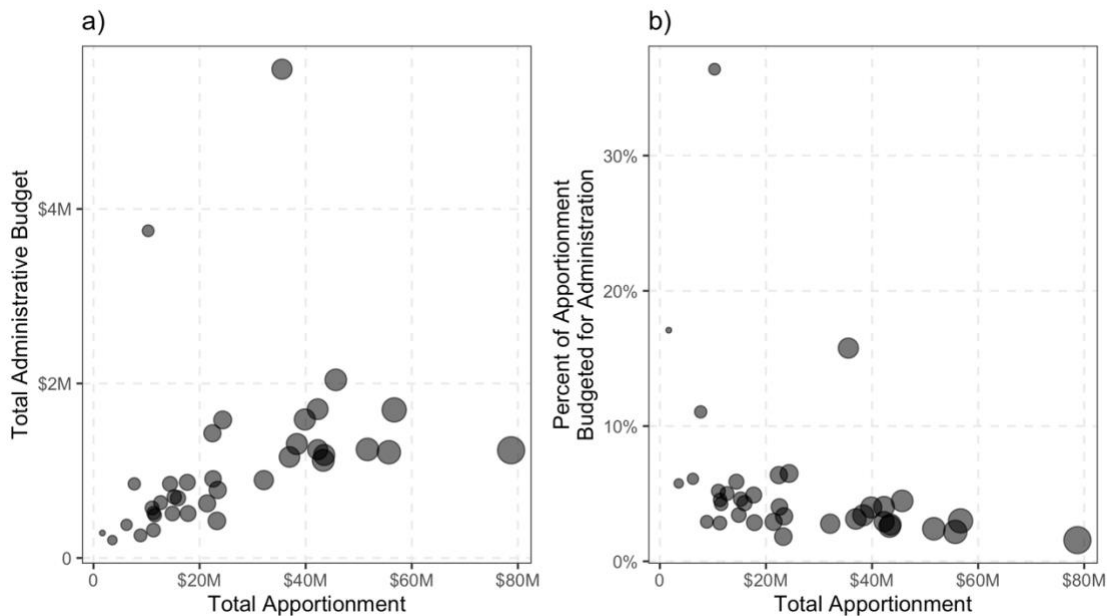
- SELPA director (95% of respondents)
- Administrative support staff (93%)
- Materials and supplies (93%)
- Indirect costs (88%)
- Fiscal support staff (75%)

SELPA administrators, on open-ended survey items, reported specific administrative budget data, and most reported budgeting between 3 and 5 percent of their total state apportionment for administration, with the minimum at 1.5 percent and the maximum at 36 percent. Figure 15 charts the self-reported administrative budgets for each SELPA that responded to the survey. Panel (a) compares the amounts of SELPA administrative budgets and panel (b) compares the percentage of SELPA apportionment reserved for administration. Panel (a) shows that variability in a SELPA’s total administration budget is largely due to the size of the SELPA.²⁰ However, panel (b) shows that there are still large differences among SELPAs

²⁰ Figure 15 does not include multi-LEA SELPAs that serve only charter LEAs.

in terms of the proportion of the total apportionment that is reportedly budgeted to administration. Generally, SELPA administrators from smaller multi-LEA SELPAs²¹ reported that they budget a higher proportion of their total apportionment for administrative purposes compared with those from larger SELPAs, about 6.5 percent compared with 4 percent, respectively.

Figure 15. SELPAs’ self-reported relationships between (a) state apportionment and SELPA administrative budget and (b) state apportionment and proportion budgeted for SELPA administration



Note. Data from the CDE’s Principal Apportionment for the 2018/19 school year and SELPA administrator survey. The size of the circle represents the relative size of the SELPA.

Results of the SELPA administrators’ survey indicated that the PS/RS funding stream is the most common source of funds for covering SELPA administrative costs. Sixty-eight percent of responding administrators indicated that these funds are used to pay for 50 to 100 percent of their SELPA’s administration — usage that aligns with the legislation’s intended purpose of these dollars, which is to support regionalized operations. When asked what percentage of PS/RS funds their governing board had agreed the SELPA would retain for its own use, 62 percent of responding administrators indicated that their SELPA retained all PS/RS funding, whereas only 20 percent indicated that their SELPA retained none of these dollars. Most SELPA administrators reported using a mix of funds to cover administrative costs, with responses indicating that, across SELPAs collectively, all fund types are sometimes used to cover such costs. In addition to PS/RS funds, this includes AB 602 base funds, out-of-home care funds, low-incidence funds, federal IDEA funds, necessary small SELPA funds, and mental health services funds, as well as funds that respondents reported as “Other.”

²¹ Smaller SELPAs are defined as having an ADA that is below the median ADA of all SELPAs.

PRIORITY DISTRIBUTIONS: REGIONAL PROGRAMS OR SERVICES

The special education local plan outlines how the member LEAs will meet the education needs of students with disabilities residing in the area. This includes ensuring that all students with disabilities have access to appropriate classrooms, service providers, and specialized equipment to meet the education needs outlined in their IEPs. “Regional programs” refers to complete special education programs (e.g., a special day class designed to meet the needs of students with autism residing in the region), whereas “regional services” refers to any of the special education and related services in a student’s IEP (e.g., occupational therapy).

The role of the SELPA is to coordinate this regional access (e.g., so that not all LEAs need to employ a full-time vision specialist or house a preschool program for students with autism). The local plan outlines which entity (a member LEA or the COE) houses or provides each specific educational program, including establishing employment arrangements for regional service providers (e.g., designating them as employees of the SELPA AU). SELPAs may also contract for regional special education programs and services from third-party providers, such as LEA members, nonpublic schools, licensed children’s institutions, and related service providers. The payment arrangement for third-party providers is outlined in the local plan. In some cases, an individual LEA pays a third-party provider directly out of state funds distributed from the SELPA to the LEA (which may or may not be reimbursed later by a high-cost pool, depending on the local plan arrangement). In other cases, multi-LEA SELPAs pay third-party providers directly, on the LEA’s behalf. In nearly all allocation plans, the study team found that the costs to each LEA for regionalized services are adjusted based on the size of the LEA or the number of students who access the service. In many cases, LEAs contribute additional funds to cover the cost of regionalized programs.

PRIORITY ALLOTMENTS: COST POOLS

Similar to the high-cost pools established by the state, most multi-LEA SELPAs create pools of funds that can be accessed by some or all of their member LEAs. These cost pools are not required; they do not reflect an expected expenditure set by the state. Although the study team’s review of allocation plans found no consistent definition of a “pool,” two thirds of SELPA administrators responding to the survey reported that their governing boards agreed that the SELPA allocation plan would include a provision for cost or risk pools. When SELPA administrators were asked about the type(s) of risk or cost pool(s) operated by their SELPAs, the most frequent responses were pools for nonpublic placement or services, legal expenses, small LEAs, or extraordinary costs.²² Table 9 provides additional examples of the types of cost pools included in multi-LEA SELPA allocation plans. The examples provided in the table typify the vast range of cost pools managed by multi-LEA SELPAs and the use of thresholds in cost pools. When asked on the survey which fund types were used to fund cost or risk pools in 2018/19, SELPA administrators reported use of a range of different fund types (see appendix E for a list of fund types used in cost pools). This mirrors the general pattern that funding streams are allocated and distributed very differently across SELPAs.

²² For a table of the most frequently reported cost or risk pools provided by SELPAs, see appendix E.

Table 9. Examples of SELPAs' high-cost pools

Shared risk pool for special circumstances: LEAs can apply when a student requires intensive services and supports that exceed LCFF and AB 602 revenue beyond a threshold of cost. LEAs must demonstrate that they have explored all other resources and made an effort to bear a portion of the cost as part of their application.

Extraordinary cost pool: For LEAs with ADA less than 200, this pool supports small LEAs with students in nonpublic schools and regional special day class (SDC) placements. Small LEAs in the SELPA contribute to and maintain this pool. It can be accessed if the LEA has two or more students enrolled in a nonpublic school or regional SDC. Funds are received through a claim process.

Mental health placement pool: The pool is available to LEAs that submit a qualifying claim for a mental health placement. Some SELPAs require a rationale to be submitted with the claim.

Extraordinary cost pool: For LEAs with ADA less than 2,500, small LEAs may apply for this cost pool for any unanticipated and extraordinary need. All LEAs in the SELPA contribute to and maintain this pool.

Extraordinary cost pool for due process costs: LEAs with due process costs determined to have SELPA-wide implications are eligible to seek reimbursements up to a percentage of those costs, not to exceed a threshold of cost for each request.

Expected Expenditures

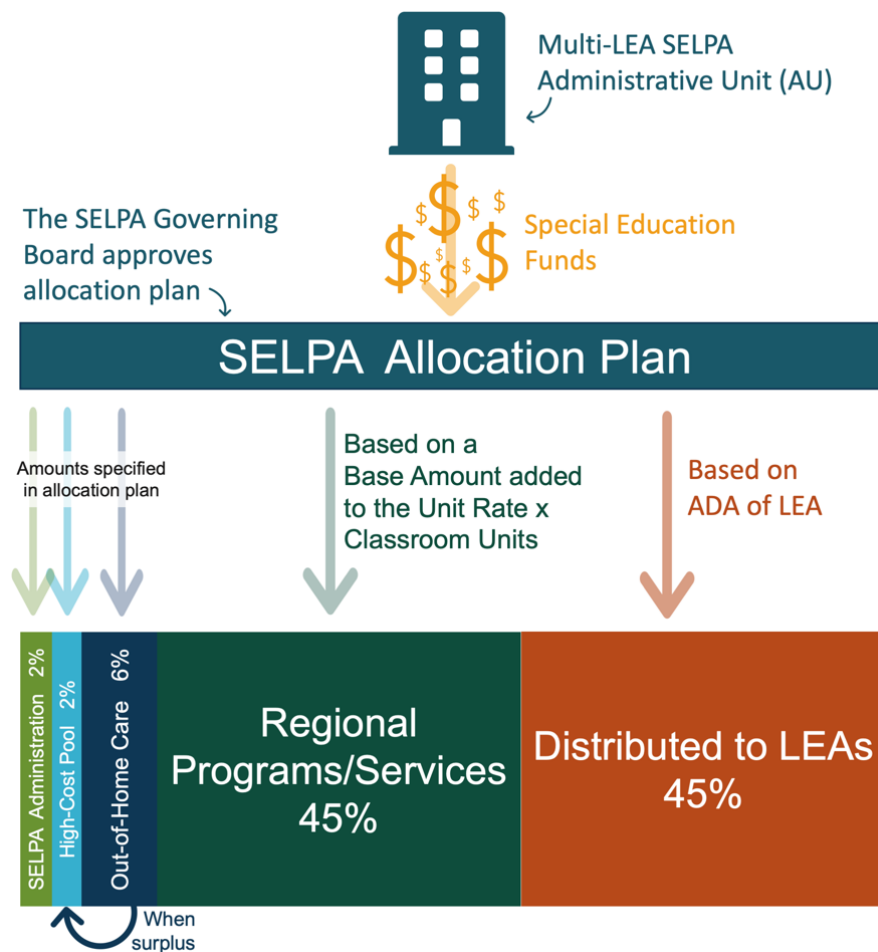
As outlined in the framework presented in section 4, how any entity, whether a SELPA, an LEA, or a school, spends its special education funds is largely influenced by which expenditures are required or restricted. As described in this section, SELPA governing boards have the authority to create their own requirements and restrictions for expenditures, even for state funds that, other than needing to be spent on special education, would otherwise be unrestricted.

Priority distributions that occur prior to any distribution of funds to LEAs — including regionalized services and cost pools — can be classified as required expenditures, because the LEA must contribute a portion of funds toward those allotments as part of its membership in the SELPA, making those funds unavailable to the LEA for other programming. Spending requirements for regionalized services and cost pools reflect what the governing board members believe to be important for their LEAs or, more specifically, for students with disabilities enrolled in their schools. Whether funds are used for multi-LEA SELPAs' administrative costs, to provide regional programs or services, or for other specific funding streams or cost pools, these funds become unavailable as base funding for other uses by member LEAs. Instead, funds are retained or may only be accessed through approved purchases, reimbursement, or another process as agreed upon by each SELPA's governing board. In this way, priority distributions are required expenditures — the expenditure is established prior to LEAs actually seeing the funds. The use of each LEA's allotment became more transparent in 2018, when the state first publicly reported the amount of funds each individual LEA would have received were it not a member of a SELPA.

Examples of How Special Education Funding Formulas Vary by SELPA

Figures 16–18 illustrate how three different SELPA allocation plans allocate and distribute special education funds to support special education for students enrolled in its member LEAs. These real examples illustrate the wide range of both allocation and distribution approaches employed by multi-LEA SELPAs’ governing boards. Note that each example uses specific language from a SELPA’s allocation plan and that the language does not necessarily align with terms or concepts used by the state or by another SELPA. This disparity in language and terminology is one example of why it is difficult to categorize funding decisions and study trends across SELPAs.

Figure 16. Example 1 of a multi-LEA SELPA’s special education funding formula

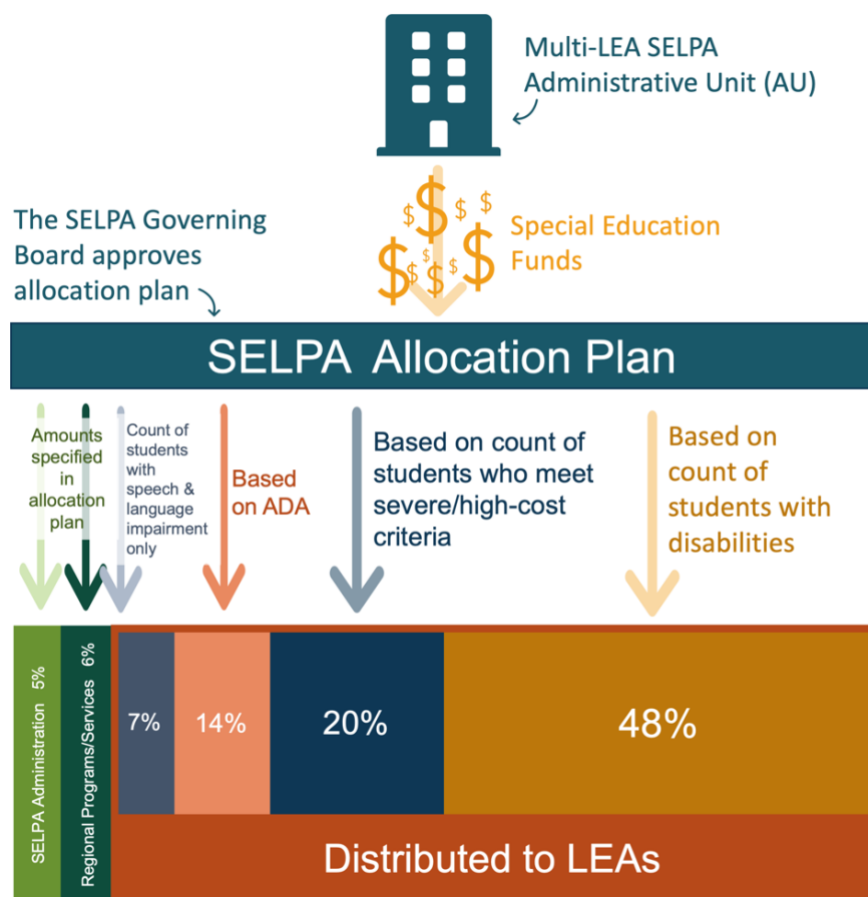


Note. Data from an individual SELPA allocation plan.

In this first example, the SELPA governing board distributes 45 percent of funds to its LEAs, 45 percent to regional programs and services, 6 percent to out-of-home care, 2 percent to a local high-cost pool (separate from funds available through the state-managed high-cost pool), and 2 percent to SELPA administration. The allocation to LEAs is divided proportionally among LEAs based on each LEA’s ADA,

whereas funds for the regional programs and services are based on a three-part calculation — a base amount, combined with per-unit rates, multiplied by the number of classroom units.

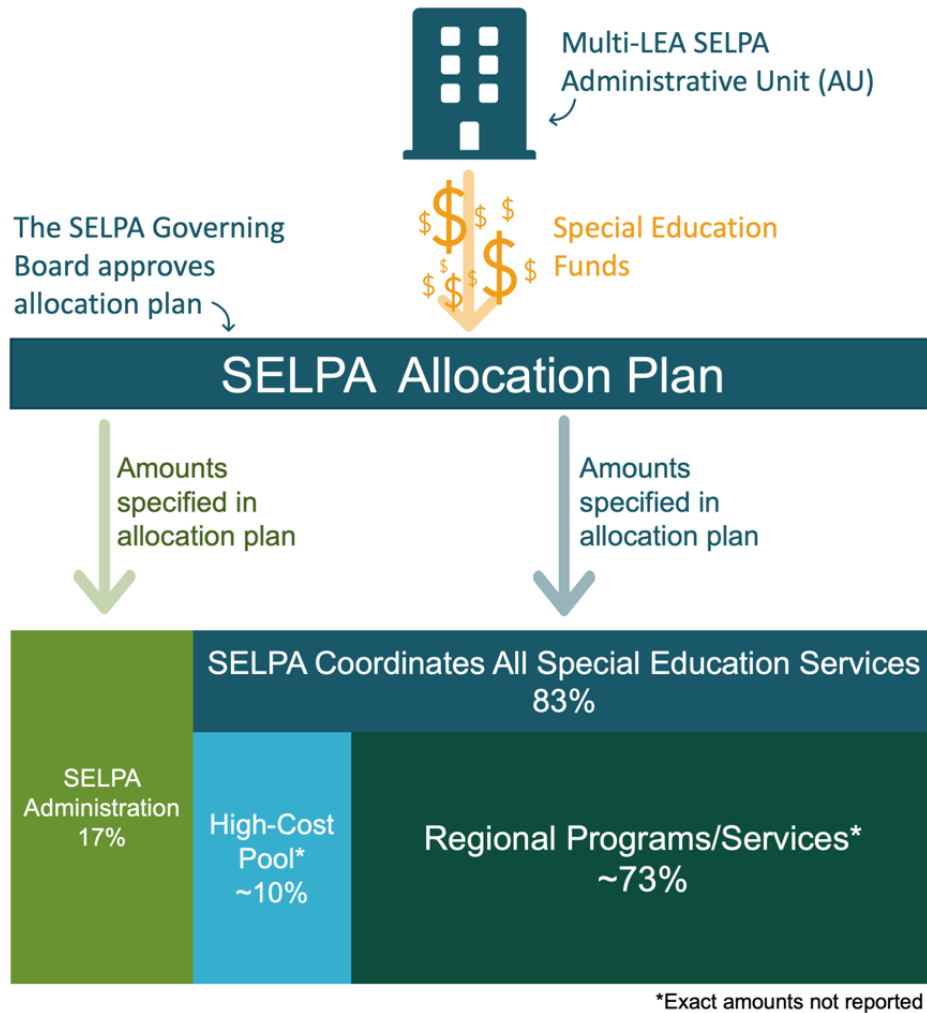
Figure 17. Example 2 of a multi-LEA SELPA’s special education funding formula



Note. Data from an individual SELPA allocation plan.

In this second example, the SELPA’s governing board distributes 89 percent of its funds to its LEAs, 6 percent to regional programs and services, and 5 percent to SELPA administration. The process for calculating funds to be given to each LEA is more complex than in the first example and uses multiple weights based on student characteristics. Specifically, nearly half of the allocation is based on an LEA’s count of students with disabilities, 20 percent is based on the count of students who meet the governing board’s definition of students with severe or high-cost disabilities, and 7 percent is based on an LEA’s count of students with speech and language impairment as the only disability category on their IEPs. An additional 14 percent is calculated proportionally based on each LEA’s ADA.

Figure 18. Example 3 of a multi-LEA SELPA’s special education funding formula



Note. Data from an individual SELPA allocation plan.

In this third example, the multi-LEA SELPA distributes no funds to member LEAs, opting instead to retain all funding to coordinate special education services itself. Compared with the previous examples, this allocation plan sets aside a larger percentage for SELPA administration to support this level of coordination, and the majority of funds are reserved for regional programs and services. The governing board of this multi-LEA SELPA also allocates funds to a local high-cost pool.

SELPA Governance and External Accountability

Each SELPA's AU is referred to in state legislation as a "responsible local agency," which, by law, must be designated by the governing board in its local plan. California's education code defines this agency as "the school district or county office of education designated in the local plan as the administrative entity the duties of which shall include, but are not limited to, receiving and distributing regionalized services funds, providing administrative support, and coordinating the implementation of the plan" (EC § 56030). In short, the AU receives special education funds and manages coordination of the special education local plan. Forty-one of the 60 multi-LEA SELPAs whose administrators responded to this study's survey (68.3 percent of respondents) identified their COE as the SELPA's AU.²³

Multi-LEA SELPA²⁴ local plans must specify the responsibilities of the AU and governing board in the policymaking process, the responsibilities of the governing board in the implementation of the local plan, and the responsibilities of special education administrators in coordinating the administration of the local plan (EC § 56205). Furthermore, the plans must identify (1) how the member LEAs are formally bound together either through a joint powers agreement or through contractual agreements, (2) a description of their policymaking process, and (3) the local method used to allocate and distribute funds received from the state among the member LEAs (EC § 56196.1).

Multi-LEA SELPAs are unique entities in their responsibility for ensuring the provision of special education services in their area. But they are also unique because of their distinct position, being both an arm of the state and an arm of LEAs. SELPAs are responsible for special education processes that are frequently assigned as state roles, including the allocation of state funds and the collection of special education data from LEAs, but they are also responsible for the implementation of special education programs through regionalized services, which is most frequently the role of an LEA.

[Multi-LEA SELPAs] are also unique because of their distinct position, being both an arm of the state and an arm of LEAs.

Although legislative actions over time, including the additional local plan requirements described previously, have aimed to make SELPAs more externally accountable, SELPAs are not externally monitored using quantifiable or qualitative indicators (CDE, 2020e), unlike the state itself (monitored by the U.S. Department of Education) or California's school districts and charter school LEAs (monitored by the California Department of Education). Given SELPAs' programmatic responsibilities, their role in determining how best to allocate and distribute state and federal funds, their role in preparing fiscal reports, and their role in monitoring the appropriate use of federal, state, and local funds, this lack of

²³ Not all SELPA AUs provide specialized instruction and/or related services directly to students, but some do. More frequently, aspects of direct services are coordinated and administered by the SELPA AU under the authority of the local plan, but are ultimately provided by the COE, LEA members of a multi-LEA SELPA, and/or third-party providers.

²⁴ A single-LEA SELPA and its AU are embedded within the LEA. As such, single-LEA SELPAs are not required to allocate funds to any other LEAs and are not required to coordinate services with other LEAs. Thus, compared with multi-LEA SELPAs, they have fewer statutory requirements under California's education code (EC § 56195.7).

formal accountability is notable. Although the lack of external monitoring allows the SELPA flexibility to meet the needs of its student population, it also places significant responsibility on the SELPA's governing board to ensure student needs are met without external accountability to establish and monitor specific decisions.

However, SELPAs are subject to some local oversight, including through the COE (EC § 56205) and through public participation requirements (EC § 56205). Multi-LEA SELPAs have always been required to develop their local plans in cooperation with a community advisory committee. Local plans must also incorporate input from special education teachers, general education teachers, and administrators within the SELPA region (EC § 56001).

Fiscal Accountability

The IDEA LEA maintenance of effort (LEA MOE) requirement presents one example of a unique accountability challenge with multi-LEA SELPAs. This requirement obligates any LEA receiving IDEA Part B funds to budget and spend at least the same amount of local funds — or state and local funds combined — on a year-to-year basis for the education of children with disabilities. The intention is to ensure that each LEA continues to expend nonfederal funds for the education of students with disabilities from year to year (Center for IDEA Fiscal Reporting, 2015).

In California, each LEA is responsible for budgeting and expending sufficient funds to meet this requirement. However, the multi-LEA SELPA is responsible for demonstrating that its member LEAs have met the requirement and for reviewing and submitting the LEA MOE data to the state, which then submits it to the U.S. Department of Education. As outlined in section 3, the majority of funds expended for the education of children with disabilities in California are local funds, not federal or AB 602 dollars; thus, one source of tension within this IDEA-imposed accountability structure is that SELPAs are reporting on the expenditure of funds over which they have no authority. Another source of tension is that the authority given to multi-LEA SELPAs over state special education funds allows them to use methods, such as a journal transfer, to change expenditures to different funding streams to ensure that each LEA within the multi-LEA SELPA meets the MOE requirement — obscuring the intent of the federal regulation.

Economies of Scale and Regional Services

The central responsibility of a multi-LEA SELPA is to plan for and coordinate the education of children with disabilities across its geographic area or other LEA group (e.g., across a group of charter LEAs) (EC § 56195.1). SELPAs can help LEAs benefit from economies of scale by pooling resources to purchase regional services that would otherwise be cost prohibitive (e.g., a full-time speech pathologist to serve several students across multiple LEAs). The term *economies of scale* refers to the observed trend that as organizations produce more units, their marginal costs (i.e., the cost of producing each unit) tend to go down — except when the scale of production becomes very large (Silvestre, 1987; Canback, 1998). This happens because as an organization grows in size, it is able to produce more efficiently.²⁵

²⁵ The exception occurs when production reaches an extremely large scale. At this point, due to the inherent cost of managing the scale of operation, marginal costs increase again (referred to as "diseconomies of scale").

Economies of scale in education are theorized to improve efficiency in the following ways (Pandolfo, 2012):

FIXED COSTS / INDIVISIBILITY

Some costs are fixed or indivisible if a service is to be offered. For example, whether a school serves one math student or 20, a single math teacher is needed. Thus, larger LEAs (or a group of LEAs) are better able to optimize staff assignments to use staff time most efficiently.

SPECIALIZATION

Some functions are highly specialized (e.g., accounting, grant management), and larger LEAs are more likely to be able to hire full-time staff for these positions, rather than assigning multiple specialized functions to a single person. As a result, these functions are able to operate more efficiently.

PURCHASING POWER

Larger LEAs can reach a threshold that allows them to benefit from cost savings by being able to buy in bulk or having more negotiation power to reduce prices. For example, as an LEA requires sufficient paper to buy in bulk, it receives a lower per-unit price because, at that scale, the paper distributor can bring down its own per-unit cost.

Research on economies of scale in education has focused on the impact of the size and scale of an LEA, not on the use of ESAs, like SELPAs, that serve multiple LEAs. Studies assessing economies of scale in individual LEAs have found that the size of an LEA's student enrollment correlates with per-pupil cost — that is, LEAs with higher enrollment have lower per-pupil costs, and those with lower enrollments have higher per-pupil costs (Gronberg et al., 2015; Lewis & Chakraborty, 1996). This effect has also been observed in previous WestEd analyses of economies of scale within special education in other states (Willis et al., 2019).

The survey conducted for this report yielded some relevant evidence. The survey asked multi-LEA SELPA administrators about the types of regional services they coordinated in 2018/19, how those services were delivered, and the rationale for providing them.²⁶ SELPA administrators reported that the most common regional offerings were: (1) specialized instruction, itinerant teachers, and equipment for students with low-incidence disabilities; (2) itinerant staff for orientation and mobility services, audiology services, and speech and language services; (3) itinerant staff for counseling and behavior services; and (4) itinerant staff for psychological services and evaluations.

When administrators were asked for the primary rationale(s) behind their provision of regionalized services, their open-ended survey responses generally fell into one or more of three categories: (1) cost efficiency and/or economies of scale (16 out of 42 responses), (2) ensuring that students can access the full continuum of services (16 out of 42 responses), and (3) quality and/or continuity of service for students (5 out of 42 responses).

²⁶ Appendix E provides a breakdown of regional services as reported by multi-LEA SELPAs.

As one multi-LEA SELPA administrator noted:

“Most of our districts are very small in size and spread out geographically Given those two factors, in an effort to provide equitable access to a broad scope of services, our local districts have decided to centralize all special education support services (with the exception of special education teachers and paraprofessionals) through the SELPA/COE

It should also be noted that by housing services through the SELPA/COE, we are often able to negotiate better rates for services (i.e., online IEP systems, social/emotional curriculums, MTSS supports, etc.). While a small district may not meet a certain minimum student count for a program or may not be able to afford a quoted rate, a consortium of small districts ... has much more flexibility in establishing and paying for services.”

When asked how member LEAs pay for regional services, multi-LEA SELPA administrators most frequently reported that regional services’ costs are taken “off the top” (36 percent). That is, member LEAs do not have to pay a fee for using regional services; rather, multi-LEA SELPAs pay for these services with funds that they have retained as part of the priority distribution. Table 10 summarizes the most frequent responses to this question.

Table 10. Counts and percentages of payment approaches for regional services.

HOW MEMBER LEAS PAY FOR REGIONAL SERVICES (SELECT ALL THAT APPLY)	NUMBER OF RESPONSES N=53	PERCENTAGE
Costs are “off the top”; no fee applied	18	36%
Per-student fee — flat rate	10	20%
Combination of “off the top” and a per-student fee	7	14%
Bill back for actual costs	7	14%
Per-student fee — adjusted rate	4	8%
Bill back for percentage of actual costs	1	2%
LEAs invoice each other	1	2%

Note. Data from study’s SELPA administrator survey.

Report Conclusion and Implications for Future Study

California's statewide special education funding system is one of the only parts of the overall state funding system that was left unaltered by, and separate from, the LCFF finance reforms of 2013, and it had not been substantively revised for more than 20 years prior to the increases to the per-student base amounts and additional funding through the Budget Act of 2019. Students with disabilities constitute a substantial and growing proportion of California's student population. The population of students with disabilities is diverse by type of disability, by level of need, and by many other characteristics. Persistent and significant achievement gaps between these students and their peers without disabilities are a clear indication that more work is needed to create inclusive, equitable education systems that ensure all students succeed and thrive.

Across all the data collected for this report — from survey responses, SELPA allocation plan analyses, and interviews and discussions with policymakers, SELPA administrators, and other state education leaders — two messages are clear. First, California's special education, administrative, and legislative leaders are committed to continuing to improve support for students with disabilities. Second, they see the state's funding system for special education, working together with federal and local funding, as central to providing high-quality support for students.

To inform efforts toward reaching the state's goal of improving support for students with disabilities and to help ensure the state's funding system effectively communicates the state's priorities, this report presents a descriptive analysis of the history of California's special education funding system and of its current status and complexities. California's funding for special education is separate from its funding for general education, and it is spread across multiple funding streams with various requirements for allocation, distribution, and expenditures.

At face value, AB 602, the mainstay of California's special education system, appears to use a simple census-based formula for allocating and distributing special education funds to LEAs on behalf of their students with disabilities — a formula intended to disincentivize overidentification of students with disabilities. However, an analysis of identification rates over time also shows that the immediate stabilization in identification rates under AB 602 did not translate to either long-term stabilization of identification rates or long-term containment of special education costs.

As described in this report, all funding formulas — whether at the state level or at a more local level, such as those developed by multi-LEA SELPA governing boards — involve a series of tradeoffs between potential benefits and drawbacks. Accordingly, California's current state-level special education funding system has some benefits. Most notably, by using a count of all students (via ADA), rather than a count of students with disabilities, as the starting point for calculating funding apportionment, the system's funding

formula provides no incentive for an LEA to overidentify students with disabilities or to find an undue number of students eligible for high-cost placements.

However, the current state system also has several drawbacks. Chief among them is that the system does not differentiate funding for special education based on characteristics or needs of the population, despite evidence that the needs of all special education students are not the same and the costs of special education programs vary. California has made progress toward equalizing the per-child amount funded for each SELPA, rather than funding amounts based on historic cost data, and the state has established supplemental funding streams for the costliest programs and most recently, for students with disabilities aged 3–5. However, additional steps could be taken to ensure that coordinated funding meets the students with the highest needs, especially those in special education and in other need categories, such as English learners. Another drawback is the complexity inherent in the state’s reliance on multi-LEA SELPAs to allocate, distribute, and establish expenditure expectations for non-local special education funds in order to meet student needs. This study’s survey and analysis of SELPA allocation plans reveal that multi-LEA SELPAs frequently employ complicated methods to allocate resources to member LEAs. These methods often differ from the state’s allocation methods and even differ for various funding streams within the SELPA’s allocation plan (e.g. by using child count rather than ADA to allocate funds or by establishing different high-cost pools than the state has established). Consequently, there is no guarantee that SELPAs’ funding formulas, which vary dramatically across the state, will reflect or communicate the state’s special education priorities.

Implications for Future Study

The intended outcome of the next report on implications and recommendations is to present potential options and scenarios for refining and potentially redesigning the special education funding system to reflect the state’s priorities and to better align special education funding with the state’s other funding and programmatic systems for improving education and outcomes for all California students. The WestEd study team will present a range of potential approaches, recognizing that the special education funding system must be designed with consideration for the current funding system for general education, the LCFF, as well as for its complementary accountability system and planning and reporting requirements, the local control and accountability plan (LCAP).

Moreover, when designing or modifying a special education funding formula, states must make related decisions about multiple components of the education funding system, as identified in the policymaking framework presented in section 4 (i.e., allocation, distribution, expected expenditures, governance, and accountability). Failure to carefully consider multiple options for — and potential benefits and drawbacks of — policy decisions related to each component may result in unintended consequences or a disconnect between the funding system and program implementation. The options will reflect this report’s findings for each funding formula component, as follows.

Allocation of Funds

The current unit used to allocate AB 602 base funding is the count of all students, measured by ADA. However, the formula allocates different amounts of funds based on each SELPA's historical costs, adjusted through recent increases intended to level funding across SELPAs. In addition, for multi-LEA SELPAs, the SELPA governing board establishes its own approaches for allocating and distributing funds to its member LEAs — approaches that vary across SELPAs and within SELPAs, by fund type. The study team's analysis of SELPA survey data and allocation plans found that multi-LEA SELPA allocation plans are nonstandard, complex, and in many instances opaque, as are their approaches to allocating funds to member LEAs.

Potential options to refine the state's current allocation approaches include taking into account the broad variability of the population of students with disabilities in California, the overlap of students with disabilities with other high-need student groups, and the different profile of students with disabilities served by charter school LEAs. The next report will present options for units, characteristics, and other factors that could be used for allocating AB 602 supplemental funding and additional funding streams outside AB 602, as well as considerations for revisiting the base allocation when sufficient funds are available.

Distribution of Funds

Many states have ESAs like California's multi-LEA SELPAs. However, California is unique in allocating funds based on LEAs' characteristics (including ADA), distributing funds to SELPAs, and assigning special education responsibilities to both SELPAs and LEAs. By adjusting or refining this unique distribution approach and clarifying expectations for SELPA distribution, the state may increase its influence over how LEA members of multi-LEA SELPAs use the funding they receive.

Expected Expenditures of Funds

The expenditure requirements and restrictions on federal and state funds for special education are different from those in general education, leading to separate planning processes, reporting processes, and governance structures. This separation, compounded with a special education funding system that allocates and distributes special education funding separately from and to an entity different from all other education funds, has contributed to a siloed special education system.

The next report will present options to adjust restrictions on the use of special education funds to incentivize a more coordinated approach to planning and implementing high-quality educational programs and supports for students who fall into more than one student group that qualifies for additional funding.

References

Abelmann, C., & Elmore, R. (1999). *When accountability knocks, will anyone answer?* CPRE Research Reports. http://repository.upenn.edu/cpre_researchreports/93

Adams & Associates. (2018). *2017 hearing decision statistics*. <https://www.californiaspeciallaw.com/wiki/hearing-decision-statistics/2017-hearing-decision-statistics/>

Adams, T., & Schweizer, N. (2017). *Enrollment of students with disabilities in charter schools*. California Department of Education. <https://www.cde.ca.gov/sp/se/ac/spedinchartrsch.asp>

Ahearn, E. (2006). *Educational service agencies: Their role in special education*. InForum Policy Brief. https://nasdse.org/docs/134_d712955b-12c7-4820-9158-f043df9d5b50.pdf

Anderson, R. (2018). *History of special education funding in California*. California Legislative Analyst's Office. <https://lao.ca.gov/Publications/Report/3764>

Association of Educational Service Agencies. (n.d.). *ESAs by state*. <http://www.aesa.us/esa-to-esa/ESA-by-state-links.cfm>

California Assessment of Student Performance and Progress (CAASPP). (n.d.). *English language arts / literacy and mathematics: Detailed test results for state of California*. <https://caaspp-elpac.cde.ca.gov/caaspp/ViewReport?ps=true&lstTestYear=2019&lstTestType=B&lstGroup=1&lstGrade=13&lstSchoolType=A&lstCounty=00&lstDistrict=00000&lstSchool=0000000>

California Department of Education (CDE). (2018a). *Funding profile (ID 5095): Special education: Extraordinary cost pool*. <https://www.cde.ca.gov/fg/fo/profile.asp?id=5095&recID=5095>

California Department of Education (CDE). (2018b). *Funding profile (ID 5096): Necessary small SELPAs ECP for mental health services*. <https://www.cde.ca.gov/fg/fo/profile.asp?id=5096&recID=5096>

California Department of Education (CDE). (2019a). *Funding profile (ID 5300): WorkAbility I program*. <https://www.cde.ca.gov/fg/fo/profile.asp?id=5300>

California Department of Education (CDE). (2019b). *Funding profile (ID 5432): Special education early intervention preschool grant*. <https://www.cde.ca.gov/fg/fo/profile.asp?id=5432>

California Department of Education (CDE). (2020a). *Special education enrollment by age and disability statewide report*. <https://data1.cde.ca.gov/dataquest/SpecEd/SpecEd1.asp?cChoice=SpecEd1&cYear=2018-19&cLevel=State&cTopic=SpecEd&myTimeFrame=S&submit1=Submit&ReptCycle=December>

California Department of Education (CDE). (2020b). *California special education local plan areas*. <https://www.cde.ca.gov/sp/se/as/caselpas.asp>

California Department of Education (CDE). (2020c). *FMTA consultant assignments by region*. <https://www.cde.ca.gov/sp/se/qa/fmtacnct.asp>

California Department of Education (CDE). (2020d). *Funding results: Special education AB 602 apportionment*. <https://www.cde.ca.gov/fg/fo/r14/ab60219result.asp>

California Department of Education (CDE). (2020e). *Compliance monitoring*. <https://www.cde.ca.gov/ta/cr/>

California Department of Education (CDE). (2020f). *Special education: Extraordinary cost pool*. <https://www.cde.ca.gov/fg/fo/profile.asp?id=5284&recID=5284>

California Department of Education (CDE). (2020g). *Assembly Bill (AB) 602, FY 2019–20*. <https://www.cde.ca.gov/fg/aa/se/ab602apptdat.asp>

California Department of Education (CDE). (2020h). *ESSA Assistance Status Data Files*. <https://www.cde.ca.gov/sp/sw/t1/essaassistdatafiles.asp>

California Department of Education (CDE). (n.d.). *DataQuest: Enrollment data*. <https://dq.cde.ca.gov/dataquest/page2.asp?Level=State&Subject=Enrollment>

California Legislative Analyst's Office (LAO). (1995). *New funding model for special education: A preliminary report*. https://lao.ca.gov/reports/1995/new_funding_model_for_special_education_a_preliminary_report.pdf

California Statewide Special Education Task Force. (2015). *One system: Reforming education to serve all students: Report of California's statewide task force on special education*. Author.

Campbell, D., & Fullan, M. (2019). *The governance core*. Corwin.

Canback, S. (1998). *Managerial diseconomies of scale: Literature survey and hypotheses anchored in transaction cost economies* (Industrial Organization 9810001). Library of Munich.

Center for IDEA Fiscal Reporting. (2015). *Quick reference guide on IDEA local educational agency maintenance of effort*. WestEd. <https://cifr.wested.org/wp-content/uploads/2015/12/CIFR-LEA-MOE-QRG.pdf>

Center for Special Education Finance. (1995). *Special education funding in states*. Office of Special Education Programs Archived Information. <https://www2.ed.gov/pubs/OSEP95AnIRpt/ch5b.html>

Dhuey, E., & Lipscomb, S. (2011). *Funding special education by capitation: Evidence from state finance reforms*. *Education Finance and Policy*, 6(2), 168–201.

Dhuey, E., & Lipscomb, S. (2013). *Funding special education by total district enrollment: Advantages, disadvantages, and policy considerations*. *Education Finance and Policy*, 8(3), 316–31.

EdBuild. (2020). *FundEd: National policy maps: A national overview of state education funding policies*. <http://funded.edbuild.org/national#special-ed>

Education Commission of the States (ECS). (2019). *K–12 funding: Small size or isolated funding adjustment*. <https://c0arw235.caspio.com/dp/b7f93000ea1a61b8c7fd496d8603>

Elgart, M. A. (2016). *Designing state accountability systems for continuous school improvement: A call to action*. AdvancED. <https://www.advanced.org/sites/default/files/ESSA%20Call%20to%20Action%20Whitepaper.pdf>

Gronberg, T. J., Jansen, D. W., Karakaplan, M. U., & Taylor, L. L. (2015). *School district consolidation: Market concentration and the scale-efficiency tradeoff*. *Southern Economic Journal*, 82(2), 580–97

Hill, L., Warren, P., Murphy, P., Ugo, P., & Pathak, A. (2016). *Special education finance in California*. Public Policy Institute of California. <https://www.ppic.org/publication/special-education-finance-in-california/>

Individuals With Disabilities Education Act, 34 CFR § 300.705 – Subgrants to LEAs. (2008).

Keane, W. G. (2001). *Educational service agencies: The invisible partner*. National Council of Professors of Educational Administration. https://www.aesa.us/Archives/research_archives/ESAs_Invisible_Partner_2001.pdf

Krausen, K., Caparas, R., & Willis, J. (2018). *Education budget strategies for challenging times: How California school districts are addressing the silent recession*. WestEd. <https://www.wested.org/wp-content/uploads/2018/12/Silent-Recession-II-Budget-Strategies-Report.pdf>

Kwak, S. (2010). *The impact of intergovernmental incentives on student disability rates*. *Public Finance Review*, 38(1), 41–73.

Lewis, W. C., & Chakraborty, K. (1996). *Scale economies in public education*. *Journal of Regional Analysis and Policy*, 26(1100-2016-89743), 23–35.

Marchitello, M., & Schiess, J. O. (2019). *California’s special education funding system creates challenges and opportunities for district and charter schools*. Bellwether Education Partners. <https://files.eric.ed.gov/fulltext/ED596436.pdf>

Merriam-Webster. (n.d.). *Governance*. Merriam-Webster.com Dictionary. <https://www.merriam-webster.com/dictionary/governance>.

Moran, J., & Sullivan, M. (2015). *Regional and statewide special education service delivery in selected states*. OLR Research Report. <https://www.cga.ct.gov/2015/rpt/2015-R-0013.htm>

National Center for Education Statistics (NCES). (2020). *Public school revenue sources*. https://nces.ed.gov/programs/coe/indicator_cma.asp

National Center for Systemic Improvement. (2020). *Educational experiences of students with disabilities: A national snapshot*. <https://ncsi-library.wested.org/resources/266>

Odden, A. R., & Picus, L. O. (2014). *School finance: A policy perspective* (5th ed.). McGraw-Hill.

Pandolfo, J. (2012). *The effect of economies of scale on California school districts' expenditures* [Unpublished doctoral dissertation]. University of California, Davis.

Parker, E. (2019). *50-state comparison: K–12 special education funding*. ECS. <https://www.ecs.org/50-state-comparison-k-12-special-education-funding/>

Silvestre, J. (1987). *Economies and diseconomies of scale*. In J. Eatwell, M. Milgate, & P. Newman (Eds.), *The new Palgrave: A dictionary of economics* (pp. 80–84). Palgrave Macmillan.

Smith, J., Gasparian, H., Perry, N., & Capinpin, F. (2013). *Categorical funds: The intersection of school finance and governance*. Center for American Progress. <https://www.americanprogress.org/wp-content/uploads/2013/11/CategoricalSpending1-brief-4.pdf>

U.S. Department of Education. (n.d.). *About IDEA*. <https://sites.ed.gov/idea/about-idea/>

U.S. Department of Education, Office of Special Education and Rehabilitative Services. (2019a). *41st annual report to Congress on the implementation of the Individuals With Disabilities Education Act, 2019*. <https://www2.ed.gov/about/reports/annual/osep/2019/parts-b-c/41st-arc-for-idea.pdf>

U.S. Department of Education, Office of Special Education and Rehabilitative Services. (2019b). *IDEA section 618 data products: State-level data files, child count and educational environments*. <https://www2.ed.gov/programs/osepidea/618-data/state-level-data-files/index.html#bccee>

U.S. Office of Special Education Programs. (n.d.). *History: Twenty-five years of progress in educating children with disabilities through IDEA*. <https://www2.ed.gov/policy/speced/leg/idea/history.pdf>

Verstegen, D. A. (2011). *Public education finance systems in the United States and funding policies for populations with special educational needs*. *Education Policy Analysis Archives*, 19(21), 1–26.

Warren, P., & Hill, L. (2018). *Getting down to facts II technical report: Revisiting finance and governance issues in special education*. Stanford University. <https://gettingdowntofacts.com/publications/revisiting-finance-and-governance-issues-special-education-0>

Washington Office of Superintendent of Public Instruction. (2020). *Unlocking state and federal program funds to support student success*. https://www.k12.wa.us/sites/default/files/public/esea/pubdocs/Unlocking_State_Federal_Program_Funds.pdf

Willis, J., Dautre, S. M., & Berg-Jacobson, A. (2019). *Study of the individualized education program (IEP) process and the adequate funding level for students with disabilities in Maryland*. WestEd. <http://marylandpublicschools.org/Documents/IEPStudy/MDSpecialEdIEPAdequacyStudyConsolidatedReportFinal122019.pdf>

Zablotsky, B., Black, L. I., Maenner, M. J., Schieve, L. A., Danielson, M. L., Bitsko, R. H., Blumberg, S. J., Kogan, M. D., & Boyle, C. A. (2019). *Prevalence and trends of developmental disabilities among children in the US: 2009–2017*. *Pediatrics*, 144(4).

Appendix A. Study Methods

Section 1

Section 1 of this report uses publicly available data from the CDE to describe California's population of students with disabilities. The main data sources used were the CDE's (1) [DataQuest](#) and (2) [CAASPP](#) online data platforms. Data from the California Special Education Management Information System (CASEMIS), financial data from the CDE, and National Center for Education Statistics databases were also used. Each analysis cites the specific data source used.

Section 1 explains the basic characteristics of California's population of students with disabilities, including the prevalence of various disability categories, identification rates at various grade levels, LRE placement, and overlap with other student demographics. These descriptive analyses rely on raw counts, percentages, and averages and do not control for any other factors.

Section 2

To outline the historical context of California's special education funding system, section 2 draws from reviews of primary source documents, as well as interviews with leaders and experts who worked in the field of special education in California during the 1980s and 1990s. Specifically, the research team reviewed California's Master Plan, budget analyses from the LAO, evaluations of Master Plan implementation from the LAO, and LAO reports from the 1990s about special education funding. The research team also conducted interviews with retired legislators, SELPA directors, lobbyists, and special education funding consultants who worked in the field during the transition from the previous special education funding system, J-50, to the current system, AB 602. The interview protocol is included in appendix G. The research team also conducted interviews with other researchers who have carried out studies within the last year on special education in California.

The research team's conceptual framing for this report draws from years of experience conducting cost studies in other states and providing technical assistance to states and LEAs. A review of extant literature and conversations with California's technical advisory committee also informed this section. Although the conceptual framing of this study is subject to change as the work evolves, it represents the research team's current insight on special education funding best practices.

Sections 4 and 5

The research team collected data on SELPAs' allocation, distribution, and expenditure of funds, through a survey administered to all SELPAs. The team also conducted a systematic analysis of respondents' multi-LEA SELPA allocation plans. The goal of the survey and the analysis was to understand which models of funding reallocation were employed across the state.

Survey Methods

In order to understand how multi-LEA SELPAs allocate and distribute funds to their member LEAs and to gather input from them and from single-LEA SELPAs on the current funding system for special education, the research team administered a survey to all SELPA directors in the state. The survey was administered through Google Forms from February 2020 through March 2020. The survey was developed with input from the SELPA Executive Board, to ensure question clarity and to ensure that the survey included questions that would solicit robust information about multi-LEA SELPA allocation and distribution processes and practices.

Administrators from 60 SELPAs, representing nearly 50 percent of SELPAs in the state, responded to the survey. Table A1 shows the breakdown of responses by type of SELPA.

Table A1. Administrator response numbers and percentages by type of SELPA

TYPE OF SELPA	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
Multi-LEA	52	87%
Single-LEA	6	10%
Multi-LEA Serving Only Charter LEAs	2	3%
Total	60	100%

Survey data were coded and analyzed by the research team. Survey responses related to multi-LEA SELPA allocation plans were cross-checked with data from the multi-LEA SELPA's actual allocation plan to increase the accuracy of the analysis.

The SELPA survey results and the multi-LEA SELPA plans suggest the need for a common language to describe plans and actual practice. Some SELPA survey results showed discrepancies between the survey responses and the plans, such as SELPAs' survey responses that indicated distributing funds to their LEAs by ADA (K–12 student attendance) only, whereas their corresponding plans outlined

distributing funds using a count of students with disabilities. There are two possible reasons for this: (1) the language on the survey was unclear or unfamiliar given the lack of a shared language to describe multi-LEA SELPA fiscal practices, and (2) survey respondents did not have detailed knowledge of the budget and fiscal practices in the SELPA.

Multi-LEA SELPA Allocation Plan Analysis

Multi-LEA SELPA survey respondents were asked to voluntarily submit both a narrative allocation plan and an Excel file for their SELPA budget. If no allocation plan was submitted for a given multi-LEA SELPA, researchers searched the Internet to determine whether the SELPA's plan was publicly available online. Publicly available plans were used only if they referenced the 2018/19 school year (the same school year for which an allocation plan was requested via the survey). If a multi-LEA SELPA's plan was neither submitted nor available online, the SELPA's survey responses were used instead. Surveys were also used to confirm any items that were unclear in the allocation plan. Researchers then coded 10 randomly selected narrative plans. After that, two independent reviewers met with the researchers to reconcile discrepancies between the results from the two researchers.

After the review of the initial 10 plans, researchers reviewed approximately five additional plans each, for a total of 20 plans. At that point, the research team determined that the intended systematic review and categorization could not be completed, due to nonstandard formats, nonstandard language, and the sheer variety of allocation and distribution mechanisms. Although the researchers found that categorization was not possible, the information obtained from reviewing plans and surveying SELPAs became the evidence base for the description of SELPAs' role provided in section 5 of the report.

Appendix B. State School-Age Special Education Funding Sources, Allocations, Distributions, Expenditures, and Amounts in 2018/19

FUNDING STREAM	ALLOCATION	DISTRIBUTION	EXPECTED EXPENDITURES	AMOUNT OF FUNDING
AB 602 Base	SELPA ADA multiplied by an historical per-pupil amount adjusted for growth, declining enrollment, cost of living, and property tax revenue	All SELPAs	Any special education expense	\$2,356,713,338
Mental Health Services	Overall ADA in the SELPA	All SELPAs	Funds must be exclusively used to support mental health services that are included with an individualized education program (IEP).	\$385,761,000
Out-of-Home Care	Per-bed or per-pupil amount multiplied by number of beds available or number of pupils served in licensed children's institutions in the SELPA.	All SELPAs	Any special education expense	\$137,011,534
PS/RS	Current year average per-pupil rate multiplied by SELPA ADA and	All SELPAs	Any special education expense	\$95,950,050

	adjusted for necessary small SELPAs			
Low-Incidence Disabilities	Number of students who are deaf, hard of hearing, visually impaired, or orthopedically impaired multiplied by a per-pupil rate	All SELPAs	Services and materials for students with qualifying conditions	\$17,908,597
SELPA Systems Improvement Leads	Competitive grant process	Selected SELPAs	For SELPA lead agencies selected and other county offices of education to improve pupil outcomes as part of the statewide system of support.	\$6,000,000
Extraordinary Cost Pools	Individual student placements	SELPAs with qualifying LEA members	Any special education expense	\$4,594,743
Necessary Small SELPAs Mental Health Service Extraordinary Cost Pool	Individual student placements	SELPAs with qualifying LEA members	Any special education expense	\$1,405,257

Appendix C. Review of State High-Cost Pools

Table C1: State high-cost pools for special education students in the most populous states

State Information			State Allocation				
State (Full Name)	State (Abbr)	State High-Cost Pool?	State Program Name	Allocation Calculation	Set by Statute/Rule /Other? (specify)	Cap?	Total State Allocation for High-Cost Pool FY 2019
California	CA	Y	Extraordinary Cost Pool Necessary Small SELPAs ECP for Mental Health Services	State funds are appropriated in the annual Budget Act. SELPAs are eligible for reimbursement from this pool. The threshold amount for claims under this section are the lesser of: (1) One percent of the allocation calculated pursuant to Section 56836.08 for the special education local plan area for the current fiscal year for any special education local plan area that meets the criteria in Section 56212; or (2) The department shall calculate the average cost of a nonpublic, nonsectarian school placement in the 1997-98 fiscal year. This amount shall be multiplied by 2.5, then by one plus the inflation factor computed pursuant to Section 42238.1, as that section read on January 1, 2013, to obtain the alternative threshold amount for claims in the 1998-99 fiscal year. In subsequent fiscal years, the alternative threshold	Cal. Ed. Code § 56836.21	No	\$4,594,743 \$1,405,257

amount shall be the alternative threshold amount for the prior fiscal year multiplied by one plus the inflation factor computed pursuant to Section 42238.1, as that section read on January 1, 2013, through the 2012-13 fiscal year and, commencing with the 2013-14 fiscal year, paragraph (2) of subdivision (d) of Section 42238.02.

Texas	TX	N					
Florida	FL	N					
New York	NY	Y	High Cost Excess Cost Aid Private Excess Cost Aid	<p>High Cost Excess Cost Aid: A school district having a pupil with a disability of school age for whom the cost, as approved by the commissioner, of appropriate special services or programs exceeds the lesser of \$10,000 or 4 times the expense per pupil without limits shall be entitled to an additional apportionment for each such child computed by multiplying the district's excess cost aid ratio by the amount by which such cost exceeds 3 times the district's expense per pupil without limits.</p> <p>Private Excess Cost Aid: A district receives Private Excess Cost Aid for pupils with disabilities in in-state and out-of-state private school settings. The aid is computed on a student-by-student basis with districts receiving private excess cost aid for each student.</p>	N.Y. Educ. Law § 3602 N.Y. Educ. Law § 4405	No	\$626,070,000 \$415,750,000
Pennsylvania	PA	Y	Special Education Contingency Funds	<p>Funds distributed to a school district or charter school shall be allocated for students for which expenses are incurred on an annual basis that</p>	24 Pa. Stat. Ann. § 25-2509.7	Yes	\$10,862,473

are equal to or greater than seventy-five thousand dollars (\$75,000) as follows: (A) for a student for whom expenses are equal to or greater than seventy-five thousand dollars (\$75,000) and less than or equal to one hundred thousand dollars (\$100,000), subtract the State subsidies paid on behalf of the student to the school district or, for a student enrolled in a charter school, the charter school payment received by the charter school where the child is enrolled from the expense incurred for the student and multiply the difference by the school district's or charter school's market value/personal income aid ratio; and (B) for a student for which expenses are greater than one hundred thousand dollars (\$100,000), subtract the State subsidies paid on behalf of the student to the school district or, for a student enrolled in a charter school, the charter school payment received by the charter school where the child is enrolled from the expense incurred for the student. No school district or charter school shall in any school year receive an amount which exceeds the total amount of funding available multiplied by the percentage equal to the greatest percentage of the State's special education students enrolled in a school district or charter school.

Illinois	IL	N
Ohio	OH	N

Georgia	GA	Y	Grant for Residential and Reintegration Services (Also known as Tuition for Multiple Disabilities)	<p>(e) LEAs with children with disabilities meeting criteria for the Residential and Reintegration Services Grant Program may be eligible to receive partial or total funding from the department. This grant covers only educational costs, related services, and room and board. LEAs must assume all costs for transportation expenses. LEAs that apply for assistance shall assume full responsibility for the funding at the time of submitting an application. Grants are not automatically funded. Approval for grant applications, therefore, shall be based on the severity of the disabling condition and the availability of funds. (f) All costs for those children with disabilities who are wards of the State in the custody of the Department of Human Services (DHS) or Department of Behavioral Health and Developmental Disabilities (DBHDD), shall be paid for by the department with state and, as needed, federal funds. (g) All applications shall be reviewed by staff of the department with priority based on the following: 1. Children with profound and severe disabilities requiring residential services who are wards of the State. 2. Children with profound and severe disabilities requiring reintegration from a residential program. 3. Children with profound disabilities needing residential services. 4. Children with severe disabilities needing residential services. 5. Children with severe or profound disabilities who attend an intensive day treatment program due to</p>	160-4-7-.18 Grants for Services	No	\$1,551,946
---------	----	---	-------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------	----	-----------------------------

				location of day program, but would otherwise require a residential program.	
North Carolina	NC	Y	Community Residential Center Grant Funds	<p>Community Residential Center funds are made available to assist local education agencies in providing special education and related services to eligible children with disabilities who are placed in an approved community residential center. The per child grant allocation is for ten months of special education and related services and includes a per child amount for educational supplies, materials and equipment. The per child allocation is prorated based on the entry date of the child. A per child allocation for two months of extended school year services is available for students that qualify.</p>	\$40,044,718 ²⁸
			Developmental Day Center Funds	<p>Developmental day funds are made available through the State Board of Education to assist in providing special education and related services to eligible children with disabilities who are placed in licensed development day centers by local education agencies. The per child grant allocation is for ten months of special education and related services and includes a per child amount for educational supplies, materials and equipment. The amount per child allocation is prorated based on the entry date of the child.</p>	

²⁸ Note: The state high-cost pool for North Carolina includes projected amounts, as the state does not have a cap on the amount.

[Group/Foster Home Program²⁷](#)

These funds are for children with disabilities residing in group and foster homes that have not been counted on the previous school year's December 1, April 1, or average daily membership child counts. These children are entitled to state aid, federal aid and average daily membership funds. The local education agency where the group home is located is responsible for the special education and related services for the students that reside in the group home. See Per Child Allocations for program rate. The per child allocation is for ten months of educational services. The allocation is the sum of the average daily membership for the program, state aid for exceptional children, and federal aid for exceptional children.

[Special State Reserve Funds](#)

Special State Reserve funds are for emergency situations for children with disabilities. Often, a high-needs child will move into a Local Education Agency (LEA) or charter school after budgets are set and funds are committed. This situation places a fiscal burden on the LEA/Charter School to secure needed funds for special education and related services for these children. The amount per child is based on the services requested. Requests support the child's educational and related services needs.

Michigan MI N

²⁷ Program is funded using both state funds and federal IDEA funds

Appendix D. State Scan of Educational Service Agencies

Table D1. States and their educational service agencies (ESAs)

STATE	ESA LABEL	ESA TYPE	SPECIAL EDUCATION RESPONSIBILITIES
AL		None	
AK	Special Education Service Agency	Cooperative formed by school districts	Yes
AZ	Education Service Agencies/ Regional Education Centers	State-created agency/network of service units/cooperative formed by school districts	
AR	Education Service Cooperative	Cooperative formed by school districts	Yes
CA	Special Education Local Plan Areas (SELPAs)	State-created agency/network of service units	Yes
CO	Board of Cooperative Education Services (BOCES)	Cooperative formed by school districts	Yes
CT	Regional Education Service Centers (RESCs)	State-created agency/network of service units	Yes
DE		None	
FL	Educational Consortium	Cooperative formed by school districts	Yes
GA	Regional Education Service Agency (RESAs)	State-created agency/network of service units	Yes
HI		None	
ID	Special Education Cooperatives	Cooperative formed by school districts	Yes
IL	Special Education Cooperatives	Cooperative formed by school districts	Yes
IN	Area Education Agencies (AEA)	State-created agency/network of service units	Yes
IA	Education Service Center	Cooperative formed by school districts	Yes
KS	Educational Cooperative	Cooperative formed by school districts	Yes
KY		None	

LA	Regional Service Centers	Cooperative formed by school districts	Yes
ME		None	
MD	Education Collaborative	Cooperative formed by school districts	Yes
MA	Intermediate School Districts (ISD) (also known as Regional Educational Service Agencies, Educational Service Districts, and Educational Service Agencies)	Intermediate school district	Yes
MI	Intermediate School Districts	Intermediate school district	Yes
MN	Service Cooperative	Cooperative formed by school districts	Yes
MS	Education Consortium	Cooperative formed by school districts	Yes
MO	Special School District / Cooperating School Districts	Cooperative formed by school districts	Yes
MT	Cooperatives	Cooperative formed by school districts	Yes
NE	Educational Service Units	Cooperative formed by school districts	Yes
NV		None	
NH		None	
NJ	Educational Services Commission	Cooperative formed by school districts	Yes
NM	Education Cooperative	Cooperative formed by school districts	Yes
NY	Board of Cooperative Education Services (BOCES)	State-created agency/network of service units	Yes
NC	Education Alliance	Cooperative formed by school districts	Yes
ND	Education Cooperative	Cooperative formed by school districts	Yes
OH	Educational Service Center	Intermediate school district	Yes
OK	Interlocals and Cooperatives	Cooperative formed by school districts	Yes
OR	Education Service District	Intermediate school district	Yes
PA	Intermediate Units	Intermediate school district	Yes
RI	Collaboratives	Cooperative formed by school districts	Yes
SC		None	
SD	Special Education Cooperatives	Cooperative formed by school districts	Yes
TN		None	
TX	Education Service Center	State-created agency/network of service units	Yes

UT	Regional Service Centers	State-created agency/network of service units	Yes
VT	Collaborative Professional/Educator Development/Learning Centers	State-created agency/network of service units	
VA	Training and Technical Assistance Centers	Regional branch of state agency	
WA	Education Service District (Special Education Cooperative Services)	State-created agency/network of service units	Yes
WV	Regional Education Service Agency (RESAs)	State-created agency/network of service units	Yes
WI	Cooperative Educational Service Agencies	State-created agency/network of service units	Yes
WY	Board of Cooperative Education Services (BOCES)	State-created agency/network of service units	Yes

Sources: Keane (2001); Moran & Sullivan (2015); Association of Educational Service Agencies (n.d.); and individual state department of education websites.

Appendix E. Cost Pool Funds and Regional Services Reported by SELPAs

Table E1. Types of funds used for cost or risk pools

FUND TYPE	NUMBER OF RESPONSES (N = 40)	PERCENTAGE
AB 602	31	77.5%
Mental Health Services	19	47.5%
Out-of-Home Care	9	22.5%
Low Incidence Fund	5	12.5%
PS/RS	4	10.0%
Federal IDEA	4	10.0%

Table E2. Most frequently reported cost or risk pools provided by SELPAs²⁹

TYPE OF COST OR RISK POOL	NUMBER OF RESPONSES (N = 40)	PERCENTAGE
Nonpublic Placement or Service	25	62.5%
Legal Expense	20	50.0%
Small LEA	16	40.0%
Extraordinary Costs	5	12.5%

²⁹ In addition, 19 SELPA administrators reported that they also provided a mental health cost pool, and 14 SELPA administrators provided a low incidence cost pool in 2018/19.

Table E3. Multi-LEA SELPA regional service offerings

REGIONAL SERVICE TYPE	NOT PROVIDED	PROVIDED THROUGH REGIONAL CLASS OR EDUCATIONAL PROGRAM (SITE-BASED)	PROVIDED THROUGH REGIONAL STAFF (ITINERANT)	PROVIDED THROUGH EQUIPMENT, SUPPLIES, AND MATERIALS
Specialized Equipment	11	9	13	31
Specialized Instruction Including Itinerant Teachers (DHH, OI, VI, ³⁰ etc.)	15	21	36	21
Child Find (Identification of Children With Disabilities)	15	12	17	11
Counseling Services	18	17	25	7
Behavior Services	19	21	21	12
Orientation and Mobility Services	19	11	29	11
Audiology Services	21	8	25	17
Occupational Therapy	21	13	21	10
Parent Counseling and Training	21	14	22	10
Assistive Technology	22	13	19	15
Physical Therapy	22	13	20	8
Psychological Services	22	14	23	8
Evaluations	23	19	23	8
IEP Meeting Administration	23	19	21	8
Interpreting Services	23	17	19	6
Speech-Language Pathology Services	23	17	23	8
Transition Services	23	20	17	7
School Health Services and/or School Nurse Services	25	16	20	7
Transportation	26	15	11	3
Eligibility Determinations	29	15	20	8
Social Work Services	30	8	13	7
Medical Services for Diagnostic or Evaluation Purposes	37	8	9	6
Recreation (Including Therapeutic Recreation)	42	4	7	3

³⁰ DHH = Deaf and Hard of Hearing, OI = Orthopedic Impairment, VI = Visual Impairment

Appendix F. Excerpts From California Department of Education Memo on History and Requirements of SELPAs

Source: Memorandum from Tony Thurmond, State Superintendent of Public Instruction, to Members, State Board of Education. Subject: Special Education Local Plan Areas — History and Requirements (March 2019).

Special Education Local Plan Area Options for Charter Schools

Under California law, charter schools have two options for the delivery of special education services:

- Operate as an “arm of the district” or “school of the district” for special education purposes
- Become an LEA for special education purposes

Option 1: School of the District Status

If a charter school determines that it will remain a “school of the district,” it will not become an LEA member of the SELPA. LEA status will remain in the hands of the district and all special education services will be provided by the district, unless agreed to otherwise.

DISTRICT RESPONSIBILITIES

The district is responsible for ensuring that all special education services are delivered to students of the charter school in the same manner as traditional district schools. In most cases, the district will assume full responsibility for providing services to students in the charter schools. In exchange, the district will retain the full amount of state (AB 602) and federal (IDEA) special education funding that it receives from the SELPA on behalf of each charter school.

In addition, the California Education Code also requires each charter school operating under this model to contribute financially to districtwide special education costs. This contribution is typically referred to as a “fair share contribution” (EC § 47646).

CHARTER SCHOOL RESPONSIBILITIES

Although charter schools rely primarily on the district to provide special education services, they still carry certain responsibilities with regard to special education. The schools must work with the district to ensure that students are appropriately identified for special education, support service delivery, and implement and monitor the individualized education program of each eligible student. In some cases, charter schools do not receive any funding to carry out these functions, nor will they have the ability to make decisions about how or by whom services are provided.

Option 2: Local Educational Agency Status for Purposes of Special Education

If a charter school chooses to be its own LEA for special education purposes, it would either join as a member of its authorizer's SELPA or another SELPA. By becoming an LEA for purposes of special education, a charter school has more autonomy in funding, oversight, and service delivery.

CHARTER SPECIAL EDUCATION LOCAL PLAN AREAS

As charter schools began to enter the California landscape, they faced challenges in joining a traditional SELPA. SELPAs were either not allowing or could not allow charter school LEAs to become SELPA members. This was particularly true of the SBE-authorized charter school LEAs because they were not affiliated with an authorizing school district within the geographic SELPA. To address this challenge, the SBE requested that the CDE review SELPA options to ensure that students with disabilities receive FAPE if a charter school operates as an LEA member in a SELPA that is not within the authorizer's geographic SELPA. For this purpose, the SBE established a pilot project that included four charter SELPAs (Desert Mountain, El Dorado, Lodi Area Special Education Region, and Yuba County) to consider the viability of continuing out-of-geographic-region charter school affiliation with these SELPAs.

Currently, there are five charter-only SELPAs in California: the El Dorado Charter SELPA, the Fresno County Charter SELPA, the Los Angeles County Charter SELPA, the Desert Mountain Charter SELPA, and the Sonoma County Charter SELPA.

Appendix G. Interview Protocol: Leaders During the J-50 to AB 602 Transition

Interviews took place by phone or videoconference. The following questions were asked of each participant (as time allowed):

1. Tell us about your experience with J-50. How were you involved?
2. Describe any challenges with J-50.
3. Describe any benefits of J-50.
4. What prompted the transition from J-50 to AB 602?
5. As you know, the main critique of a J-50-type funding approach is an incentive to overidentify students. From your perspective, did this occur under J-50? If so, what strategies did districts employ to optimize funding?
6. Who were the biggest champions of the change from J-50 to AB 602?
7. How did the transition go?
8. From your perspective, what are the benefits of AB 602?
9. From your perspective, what are the challenges with AB 602?
10. Do you see similarities between the challenges under J-50 and the current challenges under AB 602?
11. Is there anything you want to add that we haven't discussed?