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# **Special Education Financing in California A Decade After Reform**

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with contributions from Karina Jaquet

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# Acronyms

AB 602	Assembly Bill 602 (1997)
ADA	Average Daily Attendance
ADD/ADHD	Attention Deficit Disorder / Attention Deficit Hyperactivity Disorder
AIR	American Institutes for Research
ARRA	American Recovery and Reinvestment Act (2009)
CASEMIS	California Special Education Management Information System
CBEDS	California Basic Education Data System
CBSA	Core Based Statistical Area
CDE	California Department of Education
CHIS	California Health Interview Survey
COE	County Office of Education
CWI	Comparable Wage Index
ESEA	Elementary and Secondary Education Act (1965)
IDEA	Individuals with Disabilities Education Act
JPA	Joint Powers Agreement
LEA	Local Education Agency
MSA	Metropolitan Statistical Area
NCES	National Center for Education Statistics
SACS	Standardized Account Code Structure
SDA	Special Disabilities Adjustment
SEEP	Special Education Expenditure Project
SELPA	Special Education Local Plan Area
USD	Unified School District

## Summary

This report assesses California's special education finance policy and suggests improvements, about a decade after California overhauled special education financing to address concerns about the efficacy of the previous system. That overhaul, Assembly Bill 602 (1997), sought to ensure greater funding equity, eliminate inappropriate placement incentives, and streamline the funding model, among other objectives. We find that finance reform has led to positive changes but that the state can do more to implement its desired reform goals.

Special education programs help in educating California's children with disabilities, who represent one in ten public school students statewide. Program expenditures amounted to \$9.3 billion in 2006–07, or more than 16 percent of K–12 general fund spending (Lipscomb, 2009b). Special education differs from most educational programs because children with disabilities in the United States are legally entitled to free, appropriate services based on their individual needs. This service entitlement, along with the magnitude of expenditures and earlier finance reform, makes special education an important part of California's education finance policy.

Special education aid from federal, state, and local sources, at \$4.7 billion in 2006–07, is California's largest pool of funding specifically for one education program. California allocates most of this funding on a per-student basis, regardless of disability status; the underlying assumption is that disabilities vary evenly across the population. Since enacting this funding model, California has reduced but not eliminated historical inequities in the per-student funding rate across the state. Inequities in funding rates reflect historical circumstances and are not consistent with the type of special education finance system that California chose to adopt in 1997.

By design, California's special education finance model does not reimburse school districts for expenditures related to greater reported special education needs. This policy encourages districts to serve students cost-effectively, but it also means that the local share of spending on special education mandates can differ substantially across the state. This report suggests that California consider funding rate equalization, with adjustments based on factors outside of district control—factors that arguably describe true cost variation. Such adjustments could partly account for differences in costs but without giving districts an incentive to over-represent special education needs.

Precedent for this kind of funding adjustment comes from the federal government, which allocates part of its special education funding based on poverty. Within California, severe disability rates tend to be higher among children from lower-income families. California could adapt the federal model, and could add other factors too, such as varying labor market conditions. Per-pupil spending, which is primarily for salaries, is sensitive to regional variation in labor market conditions for non-teachers with similar qualifications, even holding disability rates constant. These potential adjustment factors would describe different types of costs to meet special education mandates, with the first arguably related to incidence and the second related to the expected price of employee compensation.

Following this assessment, this report then simulates how California could use the principles of the current system to allocate funds at an equal rate per student, adjusted by these two factors. The simulation adjusts for low-income students and regional labor market conditions, but California could substitute other factors, such as an updated version of the formula's existing cost proxy. These refinements would redistribute how the state allocates existing funds, but would also lead to fuller implementation of current funding objectives.

All technical appendices to this paper are available on the PPIC website:  
[http://www.ppic.org/content/pubs/other/809SLR\\_appendix.pdf](http://www.ppic.org/content/pubs/other/809SLR_appendix.pdf)

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# Introduction

Special education is a mandated but under-evaluated part of state commitments to public education. Under the federal Individuals with Disabilities Education Act (IDEA), children with disabilities have a legal entitlement to a “free and appropriate public education.”<sup>1</sup> This service entitlement makes special education different from most educational programs because it supersedes the availability of funding. In effect, school districts must meet their mandate to serve disabled children before supporting other budgeted programs.

The service entitlement alone makes special education finance an important policy issue for California and other states. But special education is also a multibillion-dollar program that serves more than 10 percent of California’s public school enrollment. In fact, the \$4.7 billion in federal, state, and local special education aid that California school districts received in 2006–07 was their largest source of funding specifically for one program. Nevertheless, a growing concern in California is that expenses related to meeting special education mandates tend to “encroach” on other education funds.<sup>2</sup> In recent years, special education spending has grown faster than spending on other programs while special education funding has grown more slowly than general-purpose funds. Spending on special education services in California totaled \$9.3 billion in 2006–07, over 16 percent of all K–12 spending (Lipscomb, 2009b).

The state legislature overhauled the special education system in 1997. Policymakers cited several undesirable properties of the prior system, such as funding inequity, complexity, and inappropriate placement incentives as reasons for pursuing reform. The reform bill, AB 602, enacted a new allocation model that addressed these issues by assuming that disabilities vary evenly across the state. The current formula distributes the predominant share of special education funds based on total student population size rather than the size of disabled populations or the needs of disabled students. The requirement that school districts meet all special education needs appropriately, whether needs are rare or frequent, inexpensive or costly, still applies. The perception of budgetary tension between special education and other programs is especially clear in California, where school districts have few options for raising additional revenue to meet new special education demands.

This report examines special education financing in California in 2006–07, about a decade after AB 602 passed. It explores the funding process, patterns of disability, and patterns of spending on disabled children. It serves as the basis for evaluating California’s finance policy today and considers whether the state should pursue further refinements. The first section, on funding, examines the extent to which switching to a per-student funding system has led to greater funding equity. The following section, on disability rates, describes disability patterns with respect to income and factors like demography because special education needs may vary across the state despite the assumption that they do not. Lastly, we document expenditures, including the local share, and describe spending patterns among regions of California where personnel costs are arguably higher.

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<sup>1</sup> IDEA first passed in 1975 as the Education of all Handicapped Children Act. Congress last reauthorized it in 2004.

<sup>2</sup> Regular education budgets funded 28 percent of special education spending in California in 2004 (Asimov, 2006). Harr, Parrish, and Chambers (2008) refer to encroachment as a growing policy concern in reviewing special education research.



We view special education financing and spending through the lens of IDEA requirements that special education aid help defray a school district's additional spending on children with disabilities—above its average spending on all children. Concerns about encroachment—the shortfall between additional spending on disabled children and special education aid—suggest that special education is raiding funding for other programs, although practically every state funds special education through a combination of federal, state, and local revenue. As Harr, Parrish, and Chambers (2008) explain, what is considered encroachment in one state may be considered the local share in another. This report adopts a similar view and whenever possible refers to encroachment as local support for additional spending on children with disabilities.

This list summarizes key terminology used in the report:

- **Spending on children with disabilities**— Combined special education and non-special education spending to educate children with disabilities
- **Additional spending on children with disabilities**— Spending on children with disabilities above the average for all children
- **Special education funds**— Federal, state, and local revenue reserved for educating children with disabilities
- **Local support for additional spending on children with disabilities**— Additional spending that is not covered by special education funds (i.e., encroachment)

The report concludes that AB 602 improved special education finance from the previous system, but that California can take additional steps to implement the desired changes that reform intended to achieve, like greater funding equity. The conclusion suggests improvements, such as refinements to the allocation model itself, and describes how those might work.

# Financing Special Education in California

## The Funding Process

Special education in California received \$4.7 billion in funding from federal, state, and local sources in 2006–07.<sup>3</sup> The California Department of Education (CDE) allocates these funds to 120 regional groups of school districts known as Special Education Local Plan Areas (SELPA) that coordinate special education activities to offer a wider range of services more efficiently.<sup>4</sup> CDE effectively controls the total size of special education grants from all sources because it deducts federal and local funding from state aid when determining SELPA allocations.

Under AB 602 (1997), California has distributed most special education funds based on the average daily attendance (ADA) of each SELPA's entire student population since 1998–99. Disability counts and special education expenditures are not part of the funding equation.<sup>5</sup> California's funding process is a census-based, or capitation, model. While not the predominant choice across the states, the use of census-based models has grown since 1991, and the federal government and nine other states now use them.<sup>6</sup> Most states continue to use more conventional formulas based on the population and reported needs of disabled students.

AB 602 addressed several key concerns with the finance model that had been in place. The old system, which allocated funds based on the number of classes in different instructional settings that districts reported, was widely seen as inequitable and overly complex; districts received different amounts of money for serving children in equivalent settings, even in the same SELPA. Transitioning to a formula based on a flat grant per student increased funding equity and transparency. Streamlining the allocation formula also helped the legislature to increase district flexibility in using funds. In addition, state policymakers wanted to avoid incentivizing inappropriate special education placements, which can happen when school districts receive funding based on their self-reported needs. Under a census-based model, school districts that classify more children as disabled incur additional costs but receive no additional funding. The pure fiscal incentive actually is to identify fewer disabilities and provide less costly services.

The sensitivity of identification rates to funding incentives is well documented by researchers, whose findings suggest that census-based models are associated with lower disability rates.<sup>7</sup> For example, Dhuey and Lipscomb (2009) estimate a relationship between states adopting census-based models and an 8–10 percent average reduction in their disability rate, mostly in the categories of learning disabilities and mental retardation; no category experienced a statistically significant increase in identification. Adopting these models was also associated with greater use of outside school placements for severely disabled children. These

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<sup>3</sup> Lipscomb (2009b) describes the components of California's special education funding process.

<sup>4</sup> SELPA membership in 2006–07 ranged from a single district to 47 districts. Tulare is the SELPA with the most member districts. There were 36 single district SELPAs. California has over 1,000 school districts and county offices of education.

<sup>5</sup> The exception is a small number of extraordinarily high cost placements.

<sup>6</sup> The states are Alabama, Alaska, Connecticut, Idaho, Massachusetts, Montana, New Jersey, North Dakota, and Pennsylvania. Missouri, South Dakota, and Vermont use a partial census model.

<sup>7</sup> For example, see Dhuey and Lipscomb (2009), Greene and Forster (2002), Kwak (2008), Lipscomb (2009a), and Mahitivanichcha and Parrish (2005). Cullen (2003) does not examine a census-based model but reaches similar conclusions about funding incentives in special education.

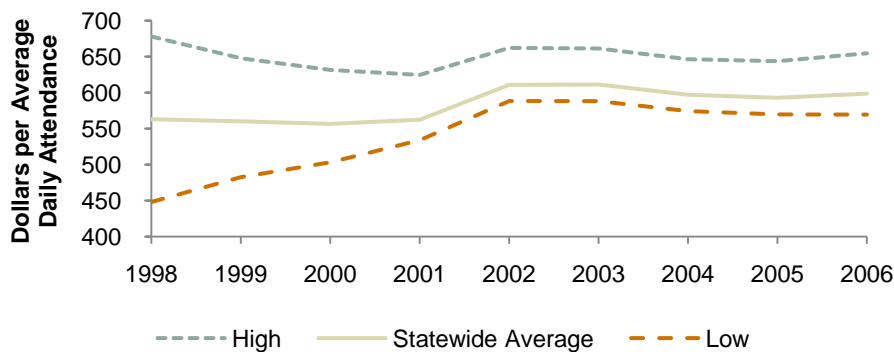
are the most expensive placements, but the increase may be because all census-based formulas provide some reimbursement for extraordinarily high-cost placements. Some evidence suggests a link between census-based reform and a higher rate of requests for dispute resolution in special education matters (Lipscomb 2009a).<sup>8</sup> Designing educational programs for disabled children may become slightly more contentious between parents and schools when states stop providing funds based on reported needs.

The general findings from the research literature support conclusions about capitation payments in health care applications.<sup>9</sup> Managed care systems typically reimburse providers based on the number of patients they see per month, rather than patient severity or the cost of treatment. The systems are cost-containment strategies, but introduce a direct incentive for providers to seek healthier patients and provide fewer services. Census-based policies in special education are similar because funding helps school districts meet individual needs but need plays little role in determining funding.

## Funding Levels

In transitioning to a census-based model, California began equalizing the funding amount that students (regardless of disability status) generate for their SELPA. This amount, called the base rate, underpins most special education allocations in California. Figure 1 shows that California has reduced but not eliminated the disparities that existed in 1998. In fact, the SELPAs that had high base rates in 1998 continue to have high base rates today. The statewide average base rate has remained mostly constant over the last five years in 2006 dollars.

**Figure 1**  
**SELPA Base Rates in 2006 Dollars**



NOTE: High and low base rates correspond to the 95<sup>th</sup> and the 5<sup>th</sup> percentile rates in California. The 5<sup>th</sup> percentile is higher than the rate that applies to 5 percent of California students. Data come from CDE.

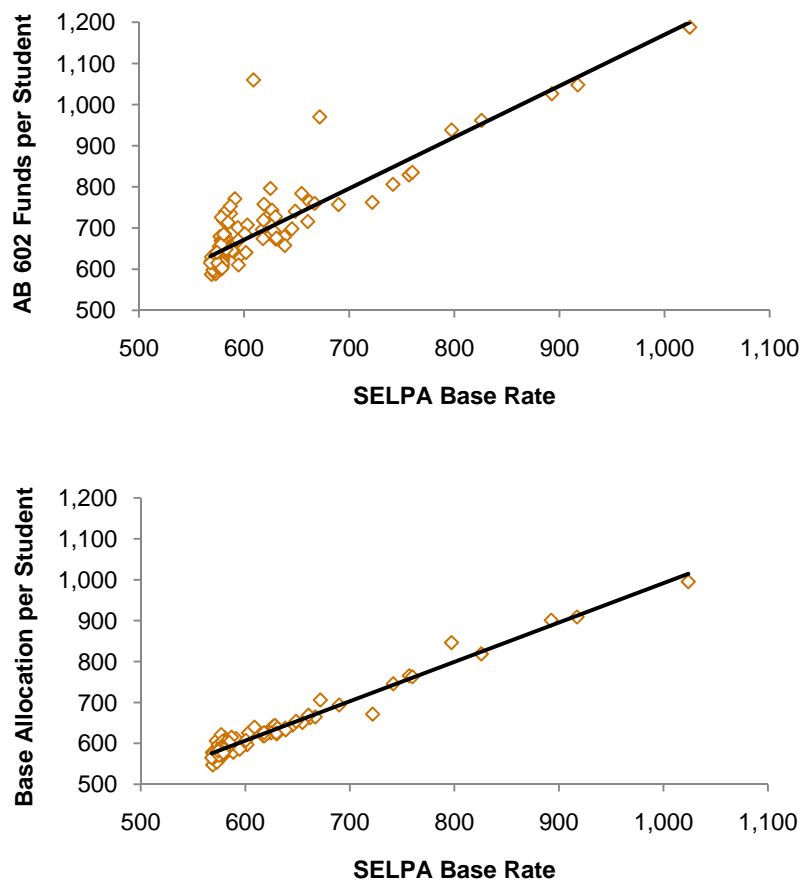
Base rate differences translate into differences in funding per student. The first chart in Figure 2 compares SELPA base rates in 2006–07 with AB 602 funds, which represent 89 percent

<sup>8</sup> The evidence comes from an “enrollment weighted” specification, suggesting nationwide growth in the rate of dispute resolution requests per special education student. Dhuey and Lipscomb (2009) treat states equally regardless of size. They find a statistically insignificant average response across reform states.

<sup>9</sup> Newhouse (1996) reviews this literature.

of federal, state, and local special education revenue.<sup>10</sup> There is a visible upward relationship. The relationship is not perfect because the allocation formula has several adjustment factors, such as for regionalized services in small SELPAs (less than 15,000 ADA) and for SELPAs eligible for a Special Disabilities Adjustment (SDA). (SDA funds are for SELPAs that the legislature found to have a greater incidence of high cost disabilities in 1998 but relatively lower base rates. The SDA is the only cost proxy in place. The next chapter discusses the SDA in further detail.)

**Figure 2**  
**Relationships Between Base Rates and Special Education Funds, 2006–07**



SOURCE: AB 602 Funding Exhibits

The second chart in Figure 2 removes these adjustment factors. The remaining funds still represent 81 percent of federal, state, and local special education revenue. The link between base rates and funding becomes nearly one to one, suggesting that historical inequities explain much of the difference in funding across SELPAs today. Further descriptive analysis in the Appendix corroborates this conclusion. The analysis adjusts the overall amount of special

<sup>10</sup> AB 602 does not allocate funds for several types of services, the largest of which are for special education transportation and infants with disabilities.

education funds per student for differences in the base rate, whether SELPAs serve fewer than 15,000 students, and whether they are eligible for SDA funding. These three factors alone explain nearly 80 percent of the variation in funding, primarily because of the association between base rates and funding per student.<sup>11</sup>

The lack of full base rate equalization has little justification more than a decade following AB 602's enactment because funding equity is one of the main rationales for adopting a census-based model. Figure 2 indicates that factors like the SDA help somewhat by providing more revenue to some SELPAs with lower base rates. But California could further AB 602's goals of equity and transparency by starting with a level playing field for everyone.

The state could then consider funding adjustments based on factors outside of SELPA control that are good proxies for true cost variation. A criticism of pure census models is that they do not account for variation in student need (Parrish, et al., 2003). The problem is that identifying good proxies is difficult. Many of the adjustment factors we think of first, like disability rates and spending, are to some extent within a district's control. Adjusting funding based on these measures reintroduces the same inappropriate incentives issue census-based models were supposed to avoid.

When faced with this same problem in allocating IDEA funds, the federal government decided to adjust apportionments for child poverty rates. In general, health outcomes tend to improve with socioeconomic status, so the poverty adjustment arguably helps account for part of the variation in special education need. The federal formula distributes 85 percent of funds based on population and 15 percent based on poverty. This report examines patterns of disability and spending in California to identify potential factors that could arguably serve as proxies for true cost variation. It then illustrates how California could incorporate these factors into an allocation formula.

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<sup>11</sup> Appendix Table A.1 provides summary statistics for the variables. Table A.2 contains the results.

## Disability Rates and Income

All census models assume that disabilities are spread evenly across the population. California justified AB 602’s goal of equalizing funding per student based on the premise that “handicapping conditions of similar severity” occur with “roughly equal frequency.”<sup>12</sup> AB 602 directs special education funds to SELPAs in part to allay fears that the equal frequency assumption may not hold for smaller populations like school districts.<sup>13</sup>

A 1998 report by the American Institutes for Research (AIR) concluded that severe/high cost disabilities did vary across SELPAs more than could be expected randomly.<sup>14</sup> Based on that, the legislature added the SDA program to the allocation formula as a cost proxy. The SDA provides a severity supplement to some lower-funded SELPAs based on the services that their high cost special education students received in 1997. In 2006–07, SDA funds provided \$81 million to 34 SELPAs or about \$34 per student in eligible SELPAs. The legislature has never updated the incidence multipliers used to determine eligibility.<sup>15</sup>

Although the SDA derives from historical data, it identifies SELPAs with current higher rates of severe disabilities. Table 1 indicates that in 2006–07, the rate of severe disabilities was 15 percent higher in SDA-eligible SELPAs. This study defines disability severity at the category of disability level, following the delineation that California uses in its financial data.<sup>16</sup> Severity clearly varies within categories too, meaning that the delineation is imperfect. Yet the categories in the severe group tend to be more costly to service, suggesting that grouping disabilities by category is reasonable across the population.<sup>17</sup>

**Table 1**  
**Severe Disability Rates and Income by SDA Funding Status, 2006–07**

	Severe Disabilities (% of Students)	Free or Reduced-price Meals (% of Students)
SELPAs Receiving SDA Funding	2.59	57.64
SELPAs Not Receiving SDA Funding	2.27	46.40

NOTE: Sample based on 119 SELPAs. The proportions in each column are statistically different at the 5 percent level. The z-statistics are 26 and 274, respectively.

The AIR (1998) study recommended a cost adjustment based on services received by high-cost students partly because a measure like poverty did not reliably explain the observed differences in severity across California a decade ago. This study finds some evidence in recent

<sup>12</sup> AB 602 Bill Analysis (1997)

<sup>13</sup> This was a recommendation from a 1995 report published by the Legislative Analyst’s Office, the Department of Education, and the Department of Finance.

<sup>14</sup> Parrish, Kaleba, Gerber, and McLaughlin (1998)

<sup>15</sup> The SDA incidence multipliers also help determine cost-of-living adjustments and growth funding.

<sup>16</sup> Based on the California School Accounting Manual’s (2008), severe disabilities include autism, deafness, deaf-blindness, emotional disturbance, mental retardation, multiple disabilities, orthopedic impairments, traumatic brain injury, and visual impairments (including blindness). Non-severe disabilities are learning disabilities, speech or language impairments, and other health impairments.

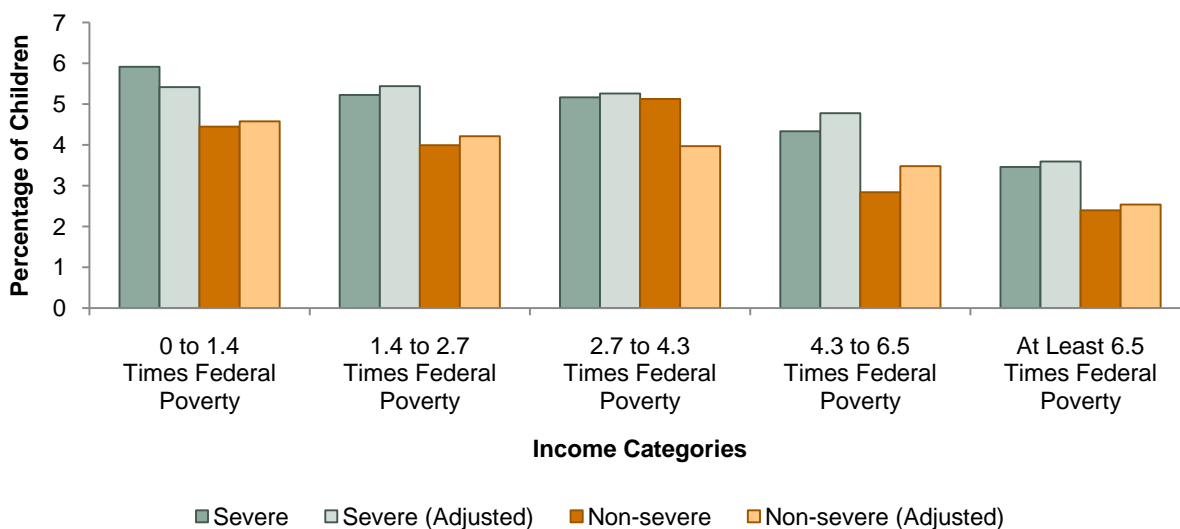
<sup>17</sup> Parrish, Harr, Kidron, Brock, Anand (2004) estimate disability costs for California in 2002–03.

data of a negative relationship between disability status and income. SDA eligibility also appears to correlate with income. For instance, Table 1 indicates that SELPAs receiving SDA funds have a higher rate of participation in free or reduced-price meals, a program with an income eligibility cap at 185 percent of the federal poverty level.

## Findings from the California Health Interview Survey

Figure 3 uses the California Health Interview Survey (CHIS), the largest state-representative health survey in the United States, to show that severe conditions tend to be less common among children from higher income families. CHIS surveyed parents about their children’s disabilities, and the sample includes 6,515 children ages 5 to 11 in 2005. The findings from the analysis are representative of California children in that age range.

**Figure 3**  
**Income and Child Disability Conditions,**  
**California Health Interview Survey, 2005**



NOTE: Each income category contains 20 percent of the sample. Table A.3 provides summary statistics on the CHIS variables. Adjusted disability rates come from regression estimates in Appendix Table A.4.

The horizontal axis divides the sample into five equally sized groups based on income. The first and third columns on the horizontal axis show the average rate of severe and non-severe conditions in each group. Both show a negative relationship with income, although the relationship is smoother for severe disabilities. The second and fourth columns show the rate of each type of condition after adjusting for differences in children’s gender, language spoken at home, rural setting, race/ethnicity, birth weight, and age. Controlling for these factors does not substantively change the relationship between income and disability status. The findings in Figure 3 support general research conclusions about correlations between health outcomes and socioeconomic status.

The association between disability and income exists for behavioral and mental conditions but not for physical conditions. Appendix Table A.4 reorganizes the severe/non-severe delineation based on whether a disability is behavioral/mental or physical. The estimates show a strong relationship between income and the former, but a small and weak relationship between income and the latter. The findings suggest that the probability of a behavioral disability is 10 percent lower for a child at 200 percent of the poverty line than it is for a child at the poverty line, adjusting for other factors.

## Findings for Children in Special Education Programs

Recent CDE data on actual special education enrollment among children with severe disabilities suggests a similar negative relationship with income. The analysis in Appendix Table A.5 constructs rates of severe and non-severe disabilities for each SELPA for 2006–07. It then uses a regression to adjust the rates for a similar set of characteristics as in Figure 3.<sup>18</sup>

The income measure is the percentage of students in a SELPA enrolled in the free or reduced-price meals program. Unlike the CHIS analysis, which compares family income and disability conditions at the individual level, the analysis using CDE data compares a SELPA's disability rate to its percentage of students in free or reduced-price meals. In other words, it only reports associations between aggregated data. While this is an important difference, the SELPA is also the level to which AB 602's assumption of even disability rates applies.

Holding constant other observable characteristics, a lower rate of free or reduced-price meals (i.e. higher income) is related to a lower severe disability rate. The findings suggest that the severe disability rate is 12 percent higher in a SELPA with 60 percent of students in free or reduced-price meals than it is in a SELPA where 30 percent of students are in free or reduced-price meals. The average rate of free or reduced-price meals across SELPAs is about 46 percent.<sup>19</sup>

The relationship between free or reduced-price meals and rates of non-severe disabilities is much weaker. Part of the explanation is that grouping disabilities under severe and non-severe headings masks differences with respect to income at the category of disability level. To illustrate this, the remaining columns in Table A.5 show the estimated relationship between free or reduced-price meals and the percentage of children classified in each of the six largest categories of disability.<sup>20</sup> These categories account for over 90 percent of disabilities in California. The data suggest that there are opposing relationships in some cases. Specifically, learning disabilities are more common in lower-income areas while other health impairments (e.g. ADD and ADHD) are more common in higher-income areas. These opposing relationships contribute to a weak association between income and non-severe disabilities overall.

Similar opposing relationships exist for severe disabilities too. Mental retardation is more common in lower-income areas while autism is more common in higher-income areas.

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<sup>18</sup> The model includes the following characteristics: percent free or reduced-price meals, an index of regional non-teacher wage levels, percent English learners, town or rural location, race/ethnicity, SELPA enrollment, AB 602 base rate per ADA, the average SELPA revenue limit per pupil, a single-district SELPA indicator, and a constant.

<sup>19</sup> Table A.1 provides summary statistics and Table A.5 contains the regression results.

<sup>20</sup> The categories are learning disabilities, speech or language impairments, other health impairments, mental retardation, autism, and emotional disturbance. Lipscomb (2009b) provides disability definitions.



Overall, however, rates of severe disabilities tend to be higher in SELPAs with higher proportions of low-income students.

The findings also suggest several significant relationships with severe disabilities besides that with income. Holding constant other factors, the rate of severe disabilities is lower in SELPAs with higher concentrations of Hispanic and Asian students, lower concentrations of African-American students, towns and rural areas, larger SELPAs, and single-district SELPAs. Hispanic and Asian children have lower rates of special education classification in California while African-Americans have higher rates relative to non-Hispanic white children (Lipscomb, 2009b). Differences in classification rates by race and ethnicity are most pronounced in the categories of emotional disturbance, learning disability, and other health impairment.

The finding about small towns and rural areas suggests that urban settings may offer a wider range of local care options: the greater availability of therapy and medical services overall may attract families with severely disabled children. The fact that that severe disability rates are also higher in larger and single-district SELPAs appears to support this theory. Single-district SELPAs tend to have both above-average district enrollments and to be located in urban locations. The AIR study by Parrish et al (1998) found that single-district SELPAs spend more per student than do others.

In sum, both the CHIS and actual special education enrollment data suggest a relationship between income and disability status, particularly for severe disabilities. A factor related to income, such as free or reduced-price meal eligibility, may be an appropriate proxy to identify SELPAs that face a higher rate of severe special education needs. An income-based adjustment would have both potential advantages and disadvantages in relation to the existing cost proxy, the SDA. The advantages are that it is entirely out of SELPA control, that it could be updated regularly, and that it would align closely with the federal formula.

But an income-based adjustment has potential disadvantages too. A 2004 follow-up report by AIR recommended that California instead update the SDA, partly because of the differing patterns of mental retardation and autism with respect to poverty. AIR also cited the possible social stigma attached to enrolling in free or reduced-price meals at the high school level. California could address this issue by collecting data on income, rather than enrollment, to determine meal program eligibility. Further, relationships between poverty and disability rates do not inform the question of how much additional funding SELPAs need because of their higher poverty rate. When the federal government experienced this issue, it adopted an 85/15 compromise between the population and poverty-based portions of its allocation formula. Because of the valid concerns about an income-based adjustment, maintaining the existing cost proxy, the SDA, would be a sensible way to go, too. In this case, California should update the multipliers that determine funding to maximize the SDA's effectiveness as a proxy for costs today.

# Spending on Children with Disabilities in California

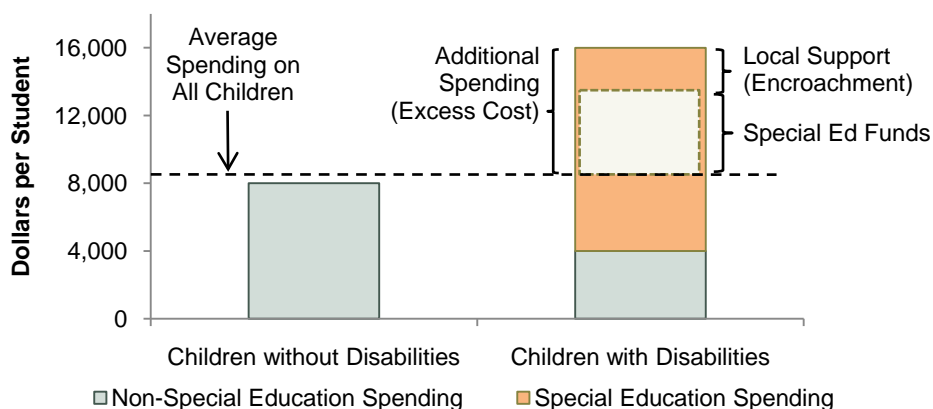
Both the prevalence of disabilities and the amount of special education funds affect school spending on disabled children. The link to funding comes from IDEA, which requires that districts use federal assistance for disabled children to help pay the “excess costs” of educating them (Federal Register, 2006).<sup>21</sup> School districts incur excess costs when they spend more educating disabled children than they spend on average on all children. This chapter documents spending levels and patterns across SELPAs. As in the previous chapter, the emphasis is partly on identifying a factor outside of SELPA control that arguably serves as a proxy for cost variation. The focus here is to account for differences in regional labor market conditions for educators, a different type of cost from the severity of student needs.

## Conceptual Framework

Despite the name, excess cost is actually a measure of spending. Costs are defined as the minimum expenditure for the services a student needs. Expenditures exceed costs when needs are not identified correctly or when districts are not providing services efficiently. Patterns of spending may resemble, but are not necessarily the same as, patterns of cost. To underscore the distinction, this report refers to excess costs as additional spending on children with disabilities.

Special education and regular education share spending on children with disabilities. For example, children with speech impairments may receive speech therapy instruction on a regular basis but are otherwise in the regular classroom, while children with severe mental retardation may spend most of the school day outside the regular classroom. Figure 4 illustrates how this sharing works. The dashed line represents average spending on all children. Additional spending on children with disabilities is above the dashed line. Special education funds help to defray these amounts, and local funds pay the rest.

**Figure 4**  
**Illustrating School Spending on Nondisabled and Disabled Children**



NOTE: Figure 4 is strictly illustrative, including the dollars per student shown on the vertical axis.

<sup>21</sup> This requirement is also listed in California Education Code Section 56841(a).

In California, state aid for special education effectively shares the same purpose federal funds do in helping defray additional spending on children with disabilities. The effective intent of state aid is the same because CDE deducts federal and local special education funds from state aid when calculating SELPA allocations. The only way for California to show that districts are using IDEA funds as intended is to treat state allocations in the same manner.

That said, the language in California's education code suggests a slightly different purpose. The cited purpose is to help local districts "provide special education and related services to individuals with exceptional needs."<sup>22</sup> In other words, state aid is for the entire special education area in Figure 4 according to the education code, although it is actually just for the part above the dashed line because of the way California deducts funding from non-state sources when calculating SELPA allocations.

The language of the education code contributes to confusion about the term "encroachment," which refers just to the local support amount above the dashed line. "Encroachment" conventionally describes any situation where local funds close a gap between special education spending and funding.<sup>23</sup> This usage may be common and appears to derive straight from the education code, but it needs to be better defined because special education funds are not meant to pay for all program spending. Children with disabilities generate other education funds for schools too, which schools can use for special education spending. As mentioned in the Introduction, partial local support for special education finance is the norm nationwide. Only Wyoming and Hawaii reimburse 100 percent of special education spending (Parrish, et al., 2003).<sup>24</sup> In California, state special education aid helps pay just the part of spending above the dashed line in Figure 4. Clarifying the intent of state special education aid is a suggestion for California to consider.

Districts draw from their other education funds to pay the local support portion shown in Figure 4. Although this money relates to a school district's excess fiscal needs, it is an imperfect measure because it describes expenditures and not costs. (It is important to remember that patterns of spending are not necessarily the result of differences in cost.) Variations among SELPAs in local support could result from other reasons too, such as parents who have greater demands for special education services in one SELPA than in another.

That said, special education expenditures are likely to stand as a better proxy for costs than other types of school spending because legal contracts between parents and schools under IDEA delineate the special education services that schools must provide (Harr, et al., 2006). School districts also have a clear incentive to operate special education programs efficiently because each additional dollar of local support diminishes available funds for other programs. Maximizing efficiency brings expenditures and costs in closer alignment.

School administrators tend to view local support for additional spending on disabled children as evidence of insufficient government funding for meeting special education

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<sup>22</sup> California Education Code Section 56836.04(b)

<sup>23</sup> For instance, the first page returned from a Google search for "special education encroachment California" on December 8, 2008 was a financial report from the Fullerton School District (2007). The report budgets \$15.1 million for special education services, including \$6.7 million in encroachment costs.

<sup>24</sup> Hawaii reimburses at a 100 percent rate because it operates a single school district for the entire state.

mandates. Additional funding is certainly a possible solution. So is looking for further cost-saving efficiencies and improving the way the state allocates existing funds. Federal stimulus money (The American Recovery and Reinvestment Act [ARRA] of 2009) may provide a rare opportunity for schools to reduce local spending on children with disabilities, through an additional \$1.3 billion in one-time IDEA funds to California school districts. Districts may be able to use half of any increase in federal assistance to reduce local and state spending.<sup>25</sup>

Federal stimulus funds may also lead to greater efficiencies over a longer period if schools invest them with that potential in mind. For instance, schools could invest in professional development strategies aimed at serving children with disabilities in the regular classroom as effectively as possible, or in new diagnostic equipment to better identify student needs.<sup>26</sup>

## Expenditure Totals for 2006–07

California public schools spent \$53.1 billion, or about \$8,447 per pupil, educating students in 2006–07 (Table 2). More than \$9.3 billion went to providing special education and related services. This is part of total spending on children with disabilities. The other part is non-special education spending on disabled children.<sup>27</sup> This latter amount must be estimated because the state’s education finance data do not separate regular education spending for disabled and nondisabled children.<sup>28</sup> We find that the regular education portion was about \$2.7 billion for 2006–07. In other words, total spending on children with disabilities was \$12.0 billion, or about \$17,633 per disabled child in the state.<sup>29</sup> The average amount of spending per disabled child in California is roughly 19 percent higher than previous estimates for the nation.<sup>30</sup> Lipscomb (2009b) finds a similar difference between California and past national estimates for the special education component of spending alone.

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<sup>25</sup> Ordinarily, school districts must spend more on special education from local or combined state and local funds in a year than in the prior year (in total or in per pupil terms) to meet funding “Maintenance of Effort” requirements.

<sup>26</sup> The ARRA example considers an increase in funding for children with disabilities. In theory, an increase in general-purpose funding can also reduce local support for additional spending by raising the dashed line in Figure 4.

<sup>27</sup> Non-special education spending is not the same as spending in the regular classroom environment because children can receive special education services in the regular classroom.

<sup>28</sup> The method in this report is to prorate non-special education spending based on the percentage of the school day that children with the same disability in California spend inside the regular classroom. For instance, each nondisabled student gets one share of non-special education spending. Disabled students get a fractional share based on their disability. See Appendix B for full details.

<sup>29</sup> The financial data includes all special education expenditures on behalf of children up to age 22. As a result, average spending per disabled child is found by dividing \$12.0 billion into total special education enrollment among children up to age 22.

<sup>30</sup> The Center for Special Education Finance (2003) reports \$13,054 in average spending per school-aged special education student in 2001–02. This converts to about \$14,819 in 2006 dollars. The inflation adjustment is the Consumer Price Index for the west region of the United States.

**Table 2**  
**Education Spending per Student by Disability Status, 2006–07**

	Dollars (billions)	Dollars per Total Enrollment	Dollars per Disabled Child	Dollars per Nondisabled Child
Total Expenditures	53.1	8,447		
Special Education Expenditures	9.3	1,474	13,642	
Non-Special Ed Spending on Children with Disabilities	2.7	431	3,991	
Total Spending on Children with Disabilities	12.0	1,905	17,633	
Total Spending on Children without Disabilities	41.1	6,542		7,334

NOTE: Appendix B describes the methodology. All amounts are net of capital outlay and debt service expenditures. The sample includes data from all school districts, county offices of education, and transportation joint powers agencies. Total enrollment is 6,282,036 K–12, ungraded, and adult education students. Special education enrollment is 678,699 children with disabilities ages 0–22.

By comparison, California schools spent about \$41.1 billion educating nondisabled children in 2006–07, about \$7,334 per child. Spending on disabled children was 2.4 times higher than spending on nondisabled children. The spending ratio in California is somewhat higher than spending ratios estimated for the nation. Harr, Parrish, and Chambers (2008) summarize the results from four studies analyzing data between 1968–69 and 1999–2000. The spending ratios for the nation in these studies range from 1.90 to 2.29.<sup>31</sup>

California’s higher spending ratio may reflect several factors. For one, the average severity level of special education students in California may be higher than in other states. California has the nation’s lowest rate of special education identification, well below the national average of about 14 percent (Lipscomb, 2009b). A lower rate of classification among children with the least severe disabilities may account for much of this difference. If so, the population of special education students in California has a bigger share of severely disabled children, helping to explain its relatively higher spending ratio.

The interaction between the service entitlement, California’s higher personnel costs, and its lower overall rate of spending per student may also contribute to a higher spending ratio. Personnel costs represent 80 percent of district expenditures in California (Rose and Sengupta, 2007). According to the U.S. Department of Education’s National Center for Education Statistics (NCES), college graduates in California earn higher salaries than in practically every other state.<sup>32</sup> California school districts need to pay these higher salaries to attract quality educators and, like other states, they need to meet special education mandates. To the extent that school districts in California meet special education mandates at higher costs than other states but spend less overall, they have less revenue available to support other programs.

The share of school spending devoted to children with disabilities resembles what is found in other states, but California classifies fewer students that way. Disabled children account for 10 percent of enrollment in California but 22.5 percent of spending. Nationwide estimates for 1999–2000 found that 12.1 percent of students were disabled, and that 21.4 percent

<sup>31</sup> It is possible that the national spending ratio has grown since 1999–2000 because of growth in high cost disabilities like autism.

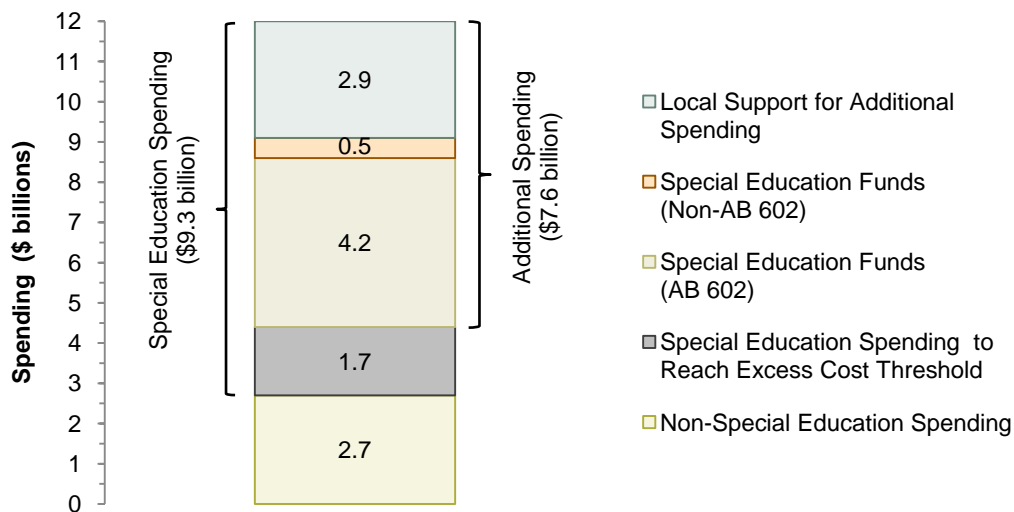
<sup>32</sup> See the Comparable Wage Index data at [www.nces.ed.gov](http://www.nces.ed.gov).

of spending was devoted to them (Harr, et al., 2006). California may spend more, but it does not spend the most. The Special Education Expenditure Project (SEEP) analyzed spending in 11 states between 1999 and 2001. Adjusted for inflation, the findings suggest that five of the states exceeded California’s average spending on disabled children in 2006–07.<sup>33</sup>

## Additional Spending on Disabled Children and Local Support

Figure 5 illustrates California’s \$12 billion in spending on children with disabilities in the same way as Figure 4. The first portion, at the bottom of the column, is for non-special education spending. The next part is special education spending below the dashed line that represents average spending on all children. Together, these components totaled \$4.4 billion in 2006–07. Additional spending accounts for the remaining \$7.6 billion. Special education funding offsets about \$4.7 billion in additional spending, leaving \$2.9 billion in local support. Altogether, special education funds offset 62 percent of additional spending on disabled children. The local support portion is the remaining 38 percent, or 24 percent of total spending on children with disabilities.

**Figure 5**  
California School Spending on Children with Disabilities, 2006–07



NOTE: Appendix B describes the method used for each calculation. Data come from the Standardized Account Code Structure and IDEA Educational Environment records for 2006.

We measure additional spending and local support at the SELPA level based on each SELPA’s entire student population. Spending and funding at the district level has more to do with local plan agreements than how the funding formula works. The methodology for calculating spending in this report follows federal regulations closely (see Appendix B) except for two main differences. First, the federal regulations describe a district-level calculation.

<sup>33</sup> SEEP examined spending in Alabama, Delaware, Indiana, Kansas, Missouri, New Jersey, New York, Ohio, Rhode Island, Maryland, and Wyoming (Center for Special Education Finance, 2003).

Second, they specify that districts should make separate calculations for elementary and secondary students.

Neither of these differences is likely to change the finding that there is a wide range of additional spending and local support per student across California. For instance, Table 3 shows that local support represented \$1,004 of \$1,830 in additional spending per student at Mt. Diablo Unified School District (USD) SELPA. This is 120 percent and 52 percent higher, respectively, than the statewide average of \$455 and \$1,201 per student. Special education funds appear to be more than sufficient to offset all additional spending on children with disabilities in a few SELPAs. For example, Sierra County Office of Education (COE) SELPA had about \$930 per student in additional spending but received \$1,188 per student in special education grants.

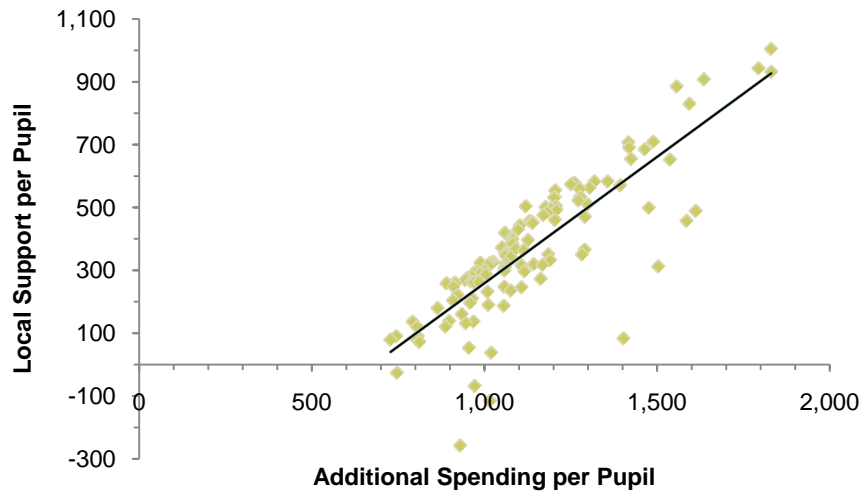
**Table 3**  
**SELPAs with the 10 Highest and Lowest Levels of Local Support per Student, 2006-07**

SELPAs with the Most Local Support per Student				SELPAs with the Least Local Support per Student			
SELPA Name	Additional Spending	Special Education Revenue	Local Support	SELPA Name	Additional Spending	Special Education Revenue	Local Support
Mt. Diablo USD	1,830	826	1,004	Sierra COE	930	1,188	-258
Los Angeles USD	1,794	851	943	Trinity COE	1,016	1,132	-116
San Diego CUSD	1,831	900	932	Lassen COE	972	1,040	-68
Newport-Mesa USD	1,636	728	908	Colusa COE	747	773	-27
Santa Clara I	1,557	672	885	Santa Clara III	1,020	983	37
North Orange	1,594	764	830	Siskiyou COE	955	902	53
Tri-City (Culver City USD)	1,489	780	709	Tehama COE	812	740	71
Santa Clara II	1,417	710	707	Imperial COE	728	649	79
North Region (Albany)	1,419	729	691	Humboldt/Del Norte	804	725	79
San Mateo COE	1,464	779	685	Modoc COE	1,403	1,320	83

NOTES: See Appendix Table B.2 for the complete list of SELPAs. The statewide per pupil average values are \$1,201 of additional spending, \$746 of special education revenue, and \$455 of local support.

SELPA funding clearly differs across California, but not because of differences in spending; SELPAs with higher additional spending per student tend to have higher amounts of local support per student (Figure 6). The solid line in the figure would be flatter if SELPAs with higher additional spending instead tended to receive more special education aid per student. Figure 6 describes an empirical relationship in the data, but not necessarily a policy concern because census-based models are not supposed to track spending. To the extent that spending and costs align closely, however, Figure 6 suggests that adjusting allocations based on cost proxies may help equalize the amount of local support per student across the state.

**Figure 6**  
**Additional Spending and Local Support for California SELPAs, 2006–07**



SOURCE: Author’s calculation based on Appendix Table B.2

## Spending and Regional Non-Teacher Wages

Patterns of spending on children with disabilities relate to regional labor market conditions in California. As mentioned earlier, the average salary for college-educated workers in California is among the highest across the states, and employee compensation is the predominant expenditure for schools. Teacher compensation varies considerably across California (Rose and Sengupta, 2007); for 2003–04, for a mid-career teacher, it ranged from less than \$55,000 in Yolo and the North Coast counties to more than \$70,000 in Santa Clara and Orange Counties.<sup>34</sup>

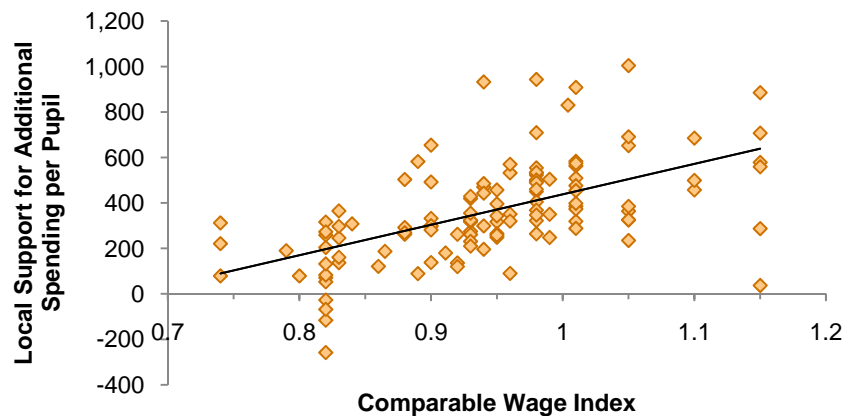
When the price of resources is higher, school districts have less purchasing power under a fixed budget, meaning that they need to look for efficiencies in their program offerings. Districts have less flexibility in special education offerings because meeting special education mandates supersedes budgetary concerns. For example, if a student needs a special education aide in the regular classroom, schools must provide one whether they are in Yolo or Santa Clara Counties.

Rose and Sengupta (2007) found that the wages of non-teachers with similar educational attainment as teachers provide a good benchmark for contextualizing differences in teacher compensation across labor markets in California. They developed a comparable wage index (CWI) that compares non-teacher wages in a regional labor market to the statewide average. Figure 7 shows a positive relationship between non-teacher wages and local support for additional spending on disabled children. The value of the index is higher for SELPAs located where non-teachers earn higher average wages.

<sup>34</sup> These salaries are for teachers with 10 years of experience and 60 credits beyond a bachelor’s degree.



**Figure 7**  
**Local Support for Additional Spending and Regional Non-Teacher Wages, 2006-07**



NOTE: The statewide average value of the CWI is 1.

The CWI serves as a proxy for variation in the personnel costs of hiring and retaining educators because it corresponds to the wage that teachers can expect outside of teaching.<sup>35</sup> It is helpful in studying patterns of spending because it is outside the control of school districts and teachers' unions. External labor market conditions are a different type of cost for districts than the amount and severity of special education needs.<sup>36</sup>

Appendix Table B.3 adjusts the relationship in Figure 7 for differences in a number of observable SELPA characteristics. These include the percent enrolled in free or reduced-price meals, percent English learners, urban or rural location, race-ethnicity, total enrollment, measures of special education and general purpose funding, and an indicator for single-district SELPAs. The findings indicate that both additional spending and local support per student relate positively to the comparable wage index, holding these factors constant.<sup>37</sup> The analysis supports the same conclusion by further controlling for the rate of both severe and non-severe disabilities. Patterns of spending relate to factors beyond types of disability.<sup>38</sup>

Figure 8 illustrates the expected rate of spending if the CWI were 10 percent above average, adjusting for observable SELPA characteristics and rates of disability. The findings suggest that additional spending on disabled children per pupil would be about 4.3 percent higher than average.

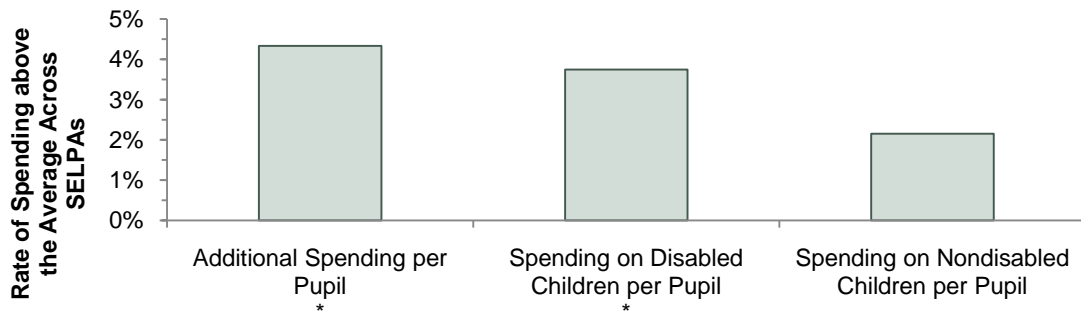
<sup>35</sup> See Rose and Sengupta (2007) for illustrations of the relationship between teacher and non-teacher wage levels across counties in California.

<sup>36</sup> Comparable plots to Figure 7, available upon request, show little evidence of a relationship between the comparable wage index and either the overall rate of special education or the rate of severe disability.

<sup>37</sup> The findings are numerically identical because special education funding per student is held constant.

<sup>38</sup> Several other variables are significant as well. Higher additional spending relates to lower enrollment in free or reduced-price meals, a higher concentration of English learners, larger SELPAs, more special education funds per student, single-district SELPAs, and higher severe disability rates. The lower rate of additional spending in SELPAs with larger rates of free or reduced-price meals appears to reflect a higher rate of spending overall (i.e. a higher dashed line in Figure 4).

**Figure 8**  
**Spending in a SELPA with a CWI 10 Percent above Average, 2006-07**



NOTE: Asterisk indicates statistical significance at the 10 percent level. The findings come from columns 3 through 5 in Appendix Table B.3. Per-pupil spending includes both disabled and nondisabled students in the denominator.

For comparison, Figure 8 illustrates similar relationships for the overall rate of spending on disabled and nondisabled children. The association between the CWI and spending per pupil on disabled children is the larger of the two, holding constant other factors. Spending on disabled children is expected to be about 3.7 percent higher than average while spending on the nondisabled is expected to be 2.2 percent higher. The association is more precise for disabled children as well. In fact, the CWI in Appendix Table B.3 is not statistically significant in describing patterns of spending per pupil on nondisabled children.

In most states, school districts have the option to try raising additional income if resources are expensive. In California, however, the state largely sets education revenue and leaves few options for local school districts to raise funds. Rose and Sengupta (2007) propose using the CWI to help equalize the purchasing power of school district budgets. At least two other recent policy reports on California education finance share this recommendation (Sonstelie, 2007; Bersin, Kirst, and Liu, 2007). Sonstelie (2007) reaches this conclusion after applying a theoretical framework of economic decisionmaking under a fixed budget and a set of resource costs to school finance and survey data. Using a theoretical model to guide the analysis helps to moderate concerns about using expenditure data to describe patterns arguably related to cost. The empirical strategy in this study resembles the one suggested by the theoretical model in Sonstelie (2007).

The Rose and Sengupta (2007) and Sonstelie (2007) studies were written as part of the *Getting Down to Facts* research project on California school finance and governance that was organized by Stanford University. The Bersin, Kirst, and Liu (2007) proposal grew out of the findings. This latter study proposes a funding system that consists of a base grant per student, an equalized special education grant per student, targeted funding for low-income students, and a regional cost adjustment. The findings in this section support a similar conclusion about the CWI and special education funds.

# Suggestions for Improving Special Education Finance

California's switch to per-student funding via AB 602 (1997) improved the state allocation formula by placing a greater emphasis on funding equity, transparency, and flexibility while minimizing incentives to classify students inappropriately. But more than a decade later, California's census-based funding system shows signs that still more could be done. Children still generate different amounts of special education funding depending on the SELPA in which they live. Moreover, the variations in funding rates today reflect the historical disparities that existed under the previous funding regime.

California could take the following two steps toward implementing more fully the type of special education finance system it chose to adopt in 1997.

- **Refine the allocation model.** Equalize the base rates and adjust funding for a small number of factors outside of SELPA control.
- **Clarify the state's objective for special education funds.** Emphasize providing appropriate services for educating disabled children rather than providing special education services alone.

## Refine the Allocation Model

California should preserve its census-based approach for special education finance, but it can improve upon the existing design. The first step is to complete the equalization of base rates per student across the state. The second step is to adjust funding for a small number of factors that are outside of SELPA control and could serve as a proxy for true cost variation.

The resulting model would aim to be sensible and simple, furthering the existing funding goals. As a census-based model, schools would be unable to influence funding levels based on the way they classify and serve students. Further, it could offer SELPAs greater flexibility in using funding, should policymakers decide to consolidate several sources of special education revenue into one allocation. According to a recent report by the Legislative Analyst's Office (2008), SELPAs receive state special education funds through 15 separate programs. The report argues for merging many of these funds because the current allocation method makes it hard to see how much funding the state provides and how it ultimately distributes funds.

This study suggests a possible form for a consolidated formula that involves equal base rates, with adjustments for eligibility in free or reduced-price meals, and regional non-teacher wage levels. The formula could resemble the federal IDEA funding process, distributing 85 percent of funds based on enrollment and 15 percent based on poverty. Such a formula would also resemble the Bersin, Kirst, and Liu (2008) proposal for California's K-12 education finance system that includes both funding for low-income students and a regional wage adjustment. Appendix C provides technical information.

Each SELPA’s funding allocation, *F*, would take the following form:

$$F = [(0.85 * Funds\ from\ All\ Pupils) + (0.15 * Adj.\ for\ Low\ Income\ Pupils)] * [Reg.\ Wage\ Adj.]$$

The formula has two components, a base and a regional wage adjustment. Most of the base (a 0.85 weight in this example) would come from multiplying the statewide base rate by total SELPA enrollment. The rest is an adjustment for low-income students. The adjustment is the statewide base rate multiplied by the number of students eligible for free or reduced-price meals. The formula then adjusts a SELPA’s base funding for regional wage levels. The average value of the regional wage adjustment is one.

The statewide base rate depends on how much money California consolidates into the allocation. Table 4 compares the simulated allocation to the current allocation using funds from the AB 602 base entitlement (second chart in Figure 2). Appendix Table C.1 provides a similar analysis using all AB 602 funds (first chart in Figure 2).<sup>39</sup> The respective statewide base rates are \$673 or \$740 per student. California could apply future cost of living adjustments or other funding supplements directly to the base rates.

**Table 4**  
**Base Allocation Funds Under Simulated and Current Models, 2006–07**

<b>A. Statewide Average, Low, and High Values</b>								
			Average	Lowest	Highest			
Simulated Allocation			605	491	692			
Current Base Allocation			605	547	995			

<b>B. Model Comparison</b>			Comparable Wage Index					
			Simulated Allocation			Current Base Allocation		
			Low	Medium	High	Low	Medium	High
			.74–.92	.93–.98	.99–1.15	.74–.92	.93–.98	.99–1.15
Percent Free or Reduced Price Meals	Low	0–38	533	581	620	632	604	625
	Medium	39–56	542	596	647	616	582	594
	High	57–100	560	618	659	652	599	646

NOTES: Summary statistics are weighted by total SELPA enrollment. The low, medium, and high categories in the model comparison each include about one-third of SELPAs. Table C.1 provides a similar model comparison using all AB 602 funds.

Section A shows that the simulated allocation maintains the actual level of base funding that was available to SELPAs in 2006–07. The difference is in how funding is distributed, with

<sup>39</sup> The simulation in Appendix Table C.1 uses all AB 602 funds for simplicity. Policymakers should leave some AB 602 programs, such as funding for out-of-home care, unchanged.

the simulated allocation reducing funding variation across the state. By design, funding per student under the simulated model (see Section B) is highest for SELPAs with large proportions of lower-income students in regions with higher expected personnel expenses. Funding per student is smallest for SELPAs that have the opposite student and personnel characteristics.<sup>40</sup> The existing allocation shows less consistent patterns with respect to regional wage levels and proportions of low-income students. For instance, SELPAs in the low/low categories currently have among the higher average rates of base funding.

The simulated allocation in Table 4 is just one possible way for policymakers to refine the funding formula and stay consistent with the finance reform goals of 1997. In practice, the state legislature could adjust the 85/15 weighting between the enrollment portion and the low-income adjustment. It could also identify and use other adjustment factors. For instance, California could maintain the SDA, the existing AB 602 cost proxy. In this case, the state should consider whether updating the SDA's eligibility criteria after a decade would provide an even better cost proxy.

Refining the funding formula along the lines of Table 4 would help California move closer to fully implementing its census-based finance reform goals. Recent policy research on education finance in California supports this type of model. It could even lead to greater efficiencies through increased flexibility. Implementation would require additional state funds only if California chose initially to hold SELPAs harmless (i.e., prevent them from losing funds under the new formula) and then phase out the hold-harmless provision over several years.

## **Clarify the State's Objective for Special Education Funds**

California can have more constructive special education debates at state and local levels by focusing on total spending to educate children with disabilities rather than on special education expenditures alone. This broader frame of reference provides a more complete picture of how schools use both the regular education and special education environments to meet the needs of children with disabilities. By examining total expenditures on disabled children in relation to total expenditures on nondisabled children, school districts can more meaningfully account for what is spent and why.

The state can take an important step by aligning the intent of state special education funds with IDEA. This would provide a clearer rationale for funding because both state and federal funds share the same purpose—helping to defray the additional spending to educate children with disabilities. A secondary benefit would be to help clarify the actual meaning of the term encroachment (the local share of additional spending on disabled children). Doing so would underscore how the debate should focus on whether the size of the local share is fair for providing a free and appropriate public education, not on whether the local share should exist at all.

In addition, better data would improve special education discussions and ensure greater program accountability. Currently, state data systems are not equipped to calculate school spending by a child's disability status. The missing ingredient is the capacity to

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<sup>40</sup> The low/low cell includes San Juan, Lassen, Tuolumne, San Luis Obispo, Amador, Calaveras, El Dorado, Nevada, Clovis, Sierra, and Placer. The high/high cell includes Garden Grove, West Contra Costa, San Francisco, Santa Ana, Anaheim, and Oakland.

account for non-special education spending on children with disabilities. This report is able to provide an estimate, but calculations that are more exact would be possible if the current data collection could track spending by disability status.<sup>41</sup>

California's current funding formula has several desirable properties, but more can be done. By building upon the state's existing accomplishments in reforming special education finance, it can develop a system to serve as a role model for education finance reforms in the future.

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<sup>41</sup> Appendix B describes the methodology used in the report.

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## **About the Author**

Stephen Lipscomb is a research fellow at the Public Policy Institute of California, where he studies education policy issues. His current work focuses on special education, school accountability, and patterns of early grade retention. He holds a Ph.D. in economics from the University of California, Santa Barbara.

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