Overview of Special Education Funding Models

Summary

Since the 1970s, federal law has required public schools to provide special education services to students with disabilities that interfere with their ability to learn. Schools in California cover special education costs through a combination of local unrestricted, state categorical, and federal categorical funding. Trailer legislation from the 2021-22 budget package specifies that state special education funds will only be allocated in the 2022-23 budget if statutory changes designed to improve the academic outcomes of students with disabilities are included in the budget. These changes may include modifications to the existing funding allocations, clarification of different roles and responsibilities within the special education system, and expansion of inclusive practices.

To help inform future discussions, this brief provides an overview of special education models used by California and other states and provides the Legislature with a framework for evaluating these models. The brief begins by providing background on the state's current funding allocation formula for special education. California provides most special education funding based on overall student attendance, with roughly 16 percent of state special education funding provided through other programs based on alternative formulas and/or for specific types of special education services, including those for students with higher-cost disabilities. The brief also describes the four primary models used by states to distribute special education funding to schools—census-based, weighted, reimbursement, and resource-based.

Next, the brief sets forth a simplified framework that describes three key criteria for evaluating special education funding models: (1) appropriate fiscal incentives, (2) alignment of funding and costs, and (3) transparency and ease of implementation. These criteria were developed based on our review of the academic literature. The brief concludes by offering some issues for the Legislature to consider. Specifically, we note that (1) all funding models have specific strengths and weaknesses, (2) legislative policy priorities and state context should drive changes to the funding formula, (3) the state can also make changes within its existing funding system, and (4) other changes are likely required to address key policy priorities.

Background

Special Education Supported by Combination of Local, State, and Federal Funding. Schools receive billions of dollars each year (mainly as local general purpose funding from the Local Control Funding Formula) to educate all students, including students with disabilities. These funds can be used for any educational purpose but primarily cover general education costs such as teacher compensation. Beyond these general education costs, schools incur additional costs to serve students with disabilities (for example, to provide specialized instructional support and adaptive equipment). To help cover these additional costs, in 2021-22, schools received about $6 billion combined from state and federal categorical funding specifically for special education. These fund sources together cover roughly one-third of the additional cost of special education services. Schools cover remaining special education costs with their local general purpose funding.

California Provides Most Special Education Funding Based on Overall Student Attendance. The state allocates most special education funding (84 percent in 2021-22) through a base rate formula commonly called AB 602 (after its enacting legislation). The formula distributes funding based on total student attendance in Transitional Kindergarten through grade 12— regardless of the number of students receiving special education, the specific disabilities of those students, or the types of services those students receive. Roughly 16 percent of state special education funding is provided through other programs based on alternative formulas and/or for specific types of special education services, including those for students with higher-cost disabilities. For instance, the Low-Incidence Disabilities program allocates funding based on the number of students who are deaf, hard of hearing, visually impaired, or orthopedically impaired. The state also runs an extraordinary cost pool which provides reimbursement for very expensive student placements in nonpublic schools exclusively serving students with disabilities.

Share of California Students Receiving Special Education Has Increased in Last Decade, Despite Declining Student Attendance. The share of California students receiving special education was virtually flat from 1997-98 through 2007-08, then grew notably in subsequent years—increasing from about 10 percent in 2008-09 to almost 12 percent in 2019-20. Much of this growth is due to an increasing share of students diagnosed with relatively severe disabilities, most notably autism, which typically require more costly services. Although the share of students receiving special education has increased in the past decade, overall statewide student attendance has declined every year since 2013-14. As AB 602 provides funding based on overall student attendance, the formula generally allocates less funding when statewide attendance declines, even if the share of students receiving special education increases. As a result, schools have reported covering an increasing share of their special education expenditures with local general purpose funding.

State Has Provided Significant Special Education Base Augmentations in Recent Years. Since 2019-20, the state has increased special education base funding by almost $1 billion (30 percent) beyond annual cost-of-living and attendance adjustments. The corresponding statewide base rate grew from $557 per student in 2019-20 to $715 per student in 2021-22. These augmentations were provided largely due to concerns over schools' growing special education costs. In addition to increased base funding, the state also recently funded several work groups and studies aimed at reforming different aspects of the special education system—including improving the state's special education governance and accountability system, expanding access to a regular high school diploma for students with disabilities, and studying placements in nonpublic schools. The final recommendations from most of these studies were released in fall 2021.

Currently, Other States Use Various Special Education Funding Models. Figure 1 describes the four primary models used by states to distribute special education funding to schools. With the exception of the census-based model, most models include some indicator of special education cost. For instance, weighted formulas—the most common

model used by states—typically allocate funds based on counts of students with disabilities. As with California, many states use a combination of these approaches to allocate funds. For example, Massachusetts allocates most special education funding under a census-based model but also maintains an extraordinary cost pool to reimburse schools serving students with high-cost services.

Framework for Evaluating Special Education Funding Models

Framework Focuses on Three Key Criteria. Based on our review of the academic literature, we developed the simplified framework shown in Figure 2 that describes three key criteria for evaluating special education funding models. (We list some of the key work that informed this brief in the Appendix.) We discuss each of these criteria in more detail below.

Appropriate Fiscal Incentives. One key criterion is to assess how the fiscal incentives created by a specific funding formula align with broader goals, such as improving student outcomes and delivering services efficiently. Special education funding models can affect decision-making in schools in several key ways. Formulas can affect the share of students that schools identify as requiring special education services—either by encouraging higher identification to generate greater funding or lower identification to reduce costs for schools. Funding models can also encourage or discourage schools to be more cost efficient or innovative in service delivery, as we discuss in more detail below. Finally, models can affect how schools respond to key state policy priorities, such as promoting early intervention, encouraging inclusive practices, and improving coordination between general education and special education.
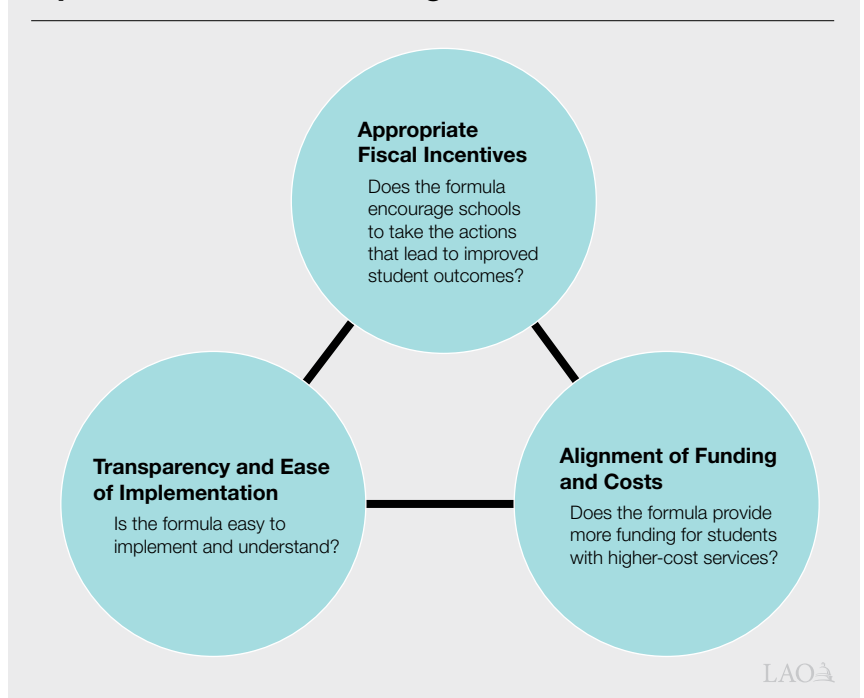
Figure 1

Types of Special Education Funding Models Used by States

	Description
Census-Based	Provides funding based on overall student attendance or enrollment. Assumes per-student special education costs do not significantly vary across the state.
Weighted	Allocates funds based on counts of students with disabilities. Variations of this model include (1) a single, flat weight where students with disabilities generate the same amount of funding and (2) tiered weights where students with disabilities generate different levels of funding based on disability category, placement type, or service levels.
Resource-Based	Provides funding based on special education resources, including teachers, instructional aides, and specialists. Level of resources typically are determined by staff-to-student ratios that can vary by disability category, placement type, or service levels.
Reimbursement	Reimburses schools for all or a percentage of actual, eligible expenditures. May include high-cost formulas that only provide reimbursement after a certain cost threshold.

Figure 2

Three Key Criteria for Evaluating Special Education Funding Models

Appropriate Fiscal Incentives
Does the formula encourage schools to take the actions that lead to improved student outcomes?

Transparency and Ease of Implementation
Is the formula easy to implement and understand?

Alignment of Funding and Costs
Does the formula provide more funding for students with higher-cost services?

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Alignment of Funding and Costs. Students with disabilities require additional services and supports to access their education. The cost associated with providing these special education services varies based on each student's specific needs. Costs can also substantially vary within each disability category, across different regions of a state, the educational setting, and by other factors. As a result, special education costs can vary significantly across schools. Models that closely link special education funding to the actual costs of providing services more efficiently distribute state funding and allow schools to better support students with varying needs, including those with higher-cost services.

Transparency and Ease of Implementation. A formula that is simple and easy to understand reduces administrative burden at both the state and local level and allows for more efficient use of special education funding. A formula that relies on straightforward procedures for a school to receive funding is also likely to reduce administrative burden, as well as potentially allow schools to project anticipated special education funding for budgeting and planning purposes. Funding formulas that require frequent, complex modifications are more administratively burdensome to update and require more work from program administrators to stay aware of formula changes. If these modifications are challenging or only sporadically implemented, funding models can become outdated and, over time, no longer aligned to the initial legislative intent.

Review of Four Most Common Funding Models

Each Funding Model Is Associated With Certain Trade-Offs. In this section, we apply the simplified framework to the four types of special education funding models used by different states and discuss the strengths and limitations of each model. Figure 3 summarizes the key trade-offs associated with each model. As the figure shows, each of the funding models has a set of unique strengths and limitations. In building their overall approach to funding special education, states can take a variety of approaches to address limitations of their primary funding models. For example,

states can use a mix of funding formulas, set aside incentive funding to encourage certain best practices, implement a robust accountability system to ensure students are appropriately identified and served, and streamline data collection to reduce administrative burden.

Census-Based Model Avoids Adverse Fiscal Incentives While Being Easy to Understand... The primary benefit of a census-based model is its ability to avoid encouraging schools to overidentify students for special education to generate additional funding. Under a census-based model, schools have limited influence over how funds are allocated. In theory, this allows schools to appropriately identify and serve students with disabilities without influence from fiscal incentives to do otherwise. By providing a set amount based on overall student attendance, the formula also is easy to understand and implement without significant administrative burden and encourages schools to consider the cost efficiency of services to contain overall special education costs. With very few spending restrictions, the census-based model also allows for innovation and flexibility in services. These benefits are consistent with those identified by California when the census-based AB 602 model was first implemented in 1998. We note that the federal government allocates most special education funding through a census-based formula based on a state's share of the national child population and national population of children living in poverty.

...But Does Not Account for Significant Differences in Cost. The most notable drawback of a census-based model is that it does not direct additional funding to schools serving students with higher-cost services. For instance, if a large school district serves disproportionately higher shares of students with high-cost disabilities—such as traumatic brain injury or orthopedic impairment—the census-based model would provide this district the same amount of funding as a similarly sized district serving a low share of students with high-cost disabilities. In California and in other states, the organization of smaller districts into regional collaboratives for special education purposes helps to address variations in identification rates across the state. Furthermore,

the state funds several categorical programs aimed at higher-cost students with disabilities. For instance, the Low-Incidence Disabilities and extraordinary cost pool programs target some additional funding for students known to have high-cost services and support needs. The Out-of-Home Care program provides additional funding for students with developmental disabilities and foster youth, known to be identified for special education at higher rates than other students. (In the early 2000s, the state also had a special disabilities adjustment that provided additional funding for schools serving higher shares of high-cost students but was eliminated in 2011-12 due to various challenges with updating the formula.)

Other Formulas Can Better Target Additional Funding Based on Higher Costs. In contrast to the census-based model, the other three special education funding models better target funding, as they include some indicator of cost. Weighted

formulas use counts of students with disabilities as a proxy for cost and can account for cost variations due to differences in the share of students identified for special education, the severity levels of disabilities, the types of placements, and the number of services students receive. Resource-based formulas provide funding based on staffing levels—the costliest component of special education—by allocating funds according to staffing needs and established staff-to-student ratios. Reimbursement formulas provide funding based on actual, allowable special education costs. Although these formulas can better target special education funds, they have other limitations, which we discuss below.

Weighted Formulas Could Introduce Fiscal Incentives to Overidentify or Misclassify Students With Disabilities. Under weighted formulas, schools only generate additional funding when a student is identified for special education. A notable concern is that weighted formulas could create a fiscal incentive for schools to overidentify or misclassify

Figure 3

Summary of Trade-Offs for Special Education Funding Models

	Appropriate Fiscal Incentives	Alignment of Funding and Costs	Transparency and Ease of Implementation
Census-Based	**+** Does not encourage overidentification of students. **+** Allows for service flexibility and innovation. **+** Encourages services to be delivered in most cost efficient way.	**–** Does not account for significant differences in cost.	**+** Simple, easy to understand formula. **+** Does not require routine updating.
Weighted	**–** May introduce incentive to overidentify and serve students for special education.	**+** Provides additional funding based on students likely to have higher costs.	**+** Easy to understand formula. **–** Formula weights may need to be updated over time to reflect changes in relative cost.
Reimbursement	**+** Less likely to encourage overidentification. **–** Does not encourage cost efficiency.	**+** Provides additional funding for schools with higher special education costs.	**–** Typically administratively burdensome to calculate costs eligible for reimbursement.
Resource-Based	**–** Could constrain service delivery based on how staff ratios are set. **–** Could encourage identifying students to fill slots in more restrictive classrooms with higher funding.	**+** Provides additional funding based on resources needed to support students with disabilities.	**–** Specific funding requirements can vary in complexity. **–** May require updates to align with changes in service delivery.

students with disabilities. Research using data from the 1990s showed that schools in Texas identified more students with speech language impairments and specific learning disabilities to increase funding under the state's weighted formula. The study found an increase in the overall identification rate, especially for districts with higher shares of black students and fiscally constrained districts with limited state education funding. Formulas with weights that vary by different disability categories may also encourage misclassifying students as having more severe disabilities than they actually do to qualify for higher funding levels. The fiscal incentives introduced by weighted formulas could undermine attempts in California and other states to provide early intervention services and appropriate supports to students struggling academically in the general education classroom first. These activities are intended to prevent significant developmental and academic delays, thereby reducing the number of students who will need special education services and the associated funding generated under a weighted model.

Resource-Based Formulas Can Result in More Restrictive Placements, Administrative Workload, and Limited Innovation. Resource-based formulas could also introduce adverse fiscal incentives. For instance, resource-based formulas can encourage schools to identify students to fill slots in specific classrooms—most likely classes attended only by students with disabilities associated with lower teacher-to-student ratios and more funding. Prior to AB 602, California used a resource-based formula to allocate special education funding, and the fiscal incentive to place students in more restricted settings to increase funding was a primary reason for the state's transition to a census-based model. In addition, resource-based formulas can be more administratively burdensome, as they typically require schools to document and report staffing and expenditure data to the state. Under California's old resource-based formula, for example, schools sometimes hired outside consultants to help them navigate the complex formula. Furthermore, California's resource-based formula only recognized certain types of service models and did not reflect changes in services and best practices over time, thus constraining schools' ability to implement innovative programs.

Reimbursement Formulas Can Be Administratively Burdensome and Do Not Encourage Cost Efficiency. Since reimbursement formulas are most directly linked to actual special education costs, schools with higher costs receive more funding under such a model, without creating fiscal incentives to overidentify students with disabilities or place them in more restrictive settings. Reimbursement models, however, can also be the most administratively complicated and burdensome approach, as schools need to submit records of actual allowable expenses to receive reimbursement. The state would also need to develop robust checks systems of oversight to ensure only eligible expenses are reimbursed. Additionally, a reimbursement model could target more funding to schools that have higher costs for reasons other than their special education population—such as those that run less cost-efficient programs.

Issues for Legislative Consideration

All Funding Models Have Specific Strengths and Limitations. As we discuss in the previous section, no single special education funding model is perfect, and each funding model has key limitations. During the forthcoming discussions about changes to the existing special education funding system, the Legislature will want to consider whether the limitations of the existing system are preferable to those of other funding models. In shifting to a census-based model in the late 1990s, the state opted to use a primary formula that avoids adverse fiscal incentives and is easy to implement despite a key limitation—namely, the lack of accounting for significant differences in costs across schools. The transition to a census-based model was intended to avoid some of the key shortcomings of the old resource-based model, which was overly complex and created incentives to place students in more restrictive settings. Deciding to shift to a new funding model should involve careful consideration of why a new model and its associated trade-offs are preferable over the existing system, as well as how the new model would be implemented to address any relevant shortcomings.

Legislative Policy Priorities and State Context Should Drive Changes to the Funding Formula. In recent years, the Legislature has signaled interest in increasing early intervention services—which can reduce the number of students identified as needing special education—and encouraging inclusive practices that serve students with disabilities in a general education setting. Both of these actions can lead to improved outcomes for students. In considering changes to special education funding, the Legislature may want to evaluate whether certain models can better promote these and/or other legislative priorities. For instance, a weighted formula could introduce fiscal incentives that discourage early intervention, as schools would only generate funding once a student is identified for special education. In contrast, a census-based model could encourage early intervention as a more cost-efficient approach to addressing learning gaps by removing fiscal incentives to identify students for special education. The Legislature may also want consider whether certain models are more appropriate for California given our state context, such as our unique school finance system. For example, California school districts are constitutionally restricted in their ability to raise local revenue due to Proposition 13 (1978), whereas districts in many other states are able to raise local taxes if they have extraordinarily high special education costs. Given these constraints on raising local revenue, districts in California likely rely more heavily on state education funding to align with their program costs, particularly when costs are extraordinarily high.

State Can Also Make Changes Within Existing Funding System. To address the key shortcoming of the census-based model, the state provides some funding through other programs that target higher-cost students with disabilities, such as the Low-Incidence Disabilities program, extraordinary cost pools, and Out-of-Home Care funding. The limited funding and specific requirements of these programs allow the state to better target funding while continuing to avoid incentives to overidentify students with disabilities or spend funds inefficiently. If the Legislature wants more targeted funding for high-cost services, the Legislature could modify or expand the existing funding system. It could, for example, expand the extraordinary cost pool, as applications for reimbursement consistently exceed the amount of funding set aside for the program.

Other Changes Likely Required to Address Key Policy Priorities. Although trailer legislation from the 2021-22 budget package signals an interest in making changes to existing special education funding allocations, additional changes beyond the funding formula are likely necessary to improve outcomes for students with disabilities. For example, eliminating key barriers to promoting inclusive practices likely requires actions beyond funding changes. Surveys of special education teachers and school districts suggest that key barriers to inclusion include general education teachers feeling unprepared to work with students with disabilities, restrictive program requirements for inclusive early learning programs, and organizational structures that make collaboration between general education and special education more difficult. These barriers may be more effectively addressed directly rather than through the primary funding formula.

Conclusion

Each special education funding model has certain strengths and limitations. During the last overhaul of the special education funding system in 1997-98, the state identified many strengths to transitioning to a census-based model, namely avoiding adverse fiscal incentives and being administratively efficient. The strengths of the census-based model continue to apply today, as does its inability to provide more funding for significantly higher costs. As the Legislature discusses potential changes to the current special education funding system, it will want to consider whether the strengths and limitations of an alternative funding model are preferable to that of the census-based model, and whether the shortcomings of an alternative model can be sufficiently addressed through other programs.

APPENDIX: SELECTED REFERENCES

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