

Special Education

LEGISLATIVE ANALYST'S OFFICE

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New Federal Supplanting Requirements

- Federal special education law has prohibited states from using federal funds to replace state funding. This is known as the federal “supplanting” requirement.

- The 2004 reauthorization of the federal law expanded this prohibition, restricting states from using federal funds for “state-law mandated” growth and cost-of living adjustments (COLAs).

- Because California law guarantees annual growth and COLA increases to special education, new federal funds cannot be used to pay for these adjustments. As a result, the budget proposes to spend \$183 million from the General Fund for special education growth and COLAs.



New Federal Supplanting Requirements

(Continued)

- The LAO proposes to eliminate the state guarantee for growth and COLA adjustments on the federally funded portion of special education. This would allow the state to use new federal funds to pay for growth and COLA adjustments on the federally funded part of the program.

- Any remaining federal funds would be used for program augmentations in special education. We think these changes comply with the new federal requirements.

LAO Proposed Federal Fund Growth and COLA Calculation	
<i>(In Millions)</i>	
2004-05 AB 602 federal funds	\$912.4
2005-06 growth and COLA increase ^a	43.3
2005-06 AB 602 federal funds	955.7
Remaining new federal funds	\$18.9
Available General Fund	\$43.3
^a Based on growth of 0.79 percent and COLA of 3.93 percent.	



New Federal Supplanting Requirements

(Continued)

- The main advantage of our proposal is that it allows the state to use federal funds, rather than Proposition 98 funds, to pay for a portion of special education growth and COLA costs.

- In addition, our proposal avoids disagreements about whether using funds for “base adjustments” represents supplanting.

- As the figure shows, our proposal generates \$43.3 million in Proposition 98 funds and \$18.9 million in federal funds that the Legislature can use for other program increases. These figures total \$62.2 million—\$17.2 million more than our recommendations in the *Analysis of the 2005-06 Budget Bill* (based on updated information).



2003-04 Maintenance of Effort Calculation

- Federal law also prohibits states from reducing spending on special education from year to year. This is known as the federal “maintenance of effort” (MOE) requirement.

MOE Calculation Special Education	
<i>2003-04 (In Millions)</i>	
Total General Fund appropriation	\$2,661.7
Total General Fund spending	2,601.4
<i>Difference</i>	<u>\$60.3</u>
MOE	<u>\$2,628.0</u>
Needed to meet MOE	\$26.6

- We estimate the state needs to spend \$26.6 million in Proposition 98 funds to meet the MOE requirement in 2003-04.
- The savings result from lower growth in the number of students than originally estimated.
- In addition to the special education funds, we estimate there are \$21 million in Proposition 98 funds available that could be spent on any one-time K-14 program.



Special Education Budget Proposals

Special Education Budget Proposals		
<i>2005-06</i>		
Available Funds (From LAO Recommendations)		
Ongoing Funds		
LAO federal COLA/growth proposal		\$43.3
Available federal funds		18.9
Total		\$62.2
One-Time Funds		
2003-04 MOE		\$26.6
Program Proposals	LAO	Governor's Budget
Ongoing Funds		
Mental health services	\$42.8	—
Out-of-Home Care formula	2.2	\$20.2
AB 602 augmentation	—	24.8
Unallocated	17.2	17.2
Totals	\$62.2	\$62.2
One-Time Funds		
One-time block grant	\$13.9	—
Out-of-Home Care (technical)	2.2	—
Unallocated	10.5	\$26.6
Totals	\$26.6	\$26.6



Mental Health Services for Special Education Services

- Mental health services for special education services are currently provided through a state-mandated local program through county mental health agencies.

- The budget proposes to suspend the mandate for one year. A one-year suspension of the mandate would place K-12 education responsible for the fiscal and program decisions for these services.

- The K-12 budget does not recognize the shift in responsibilities. The budget proposes to spend \$69 million in federal funds for services through county mental health programs and \$31 million for prereferral services through Special Education Local Plan Areas (SELPA's). We estimate total costs of the mandate at about \$145 million.



Mental Health Services for Special Education Services

(Continued)

- We propose to eliminate the mandate, which would return financial and program responsibility to K-12 education permanently. We also recommend appropriating \$142.8 million to SELPAs for this program.

- We think SELPAs have incentives to administer these services more efficiently. Recent audits of county mandate claims show how the mandate reimbursement system encourages local government to inflate actual cost of services.

- We also think our proposal could improve the effectiveness of services to students. The shift in responsibility would encourage SELPAs to take responsibility for ensuring the delivery of effective services.

- In the short run, we expect SELPAs would contract with county mental health agencies to administer most mental health services. In the long run, however, SELPAs would have more options in how services are provided.