

THE IMPLEMENTATION OF
THE MASTER PLAN FOR SPECIAL EDUCATION:
1980-81 THROUGH 1984-85

DECEMBER 1985

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
SUMMARY OF FINDINGS AND RECOMMENDATIONS.....	4
I. BACKGROUND.....	12
Federal Legislation.....	12
Court Rulings.....	13
Special Education in California.....	15
II. MASTER PLAN SERVICE MODEL.....	19
Governance Structure.....	19
Services.....	20
Instructional Settings.....	20
Regionalized Services and Program Specialists.....	22
Special Transportation.....	23
III. MASTER PLAN FUNDING MODEL.....	26
Statewide Special Education Revenues and Expenditures.....	26
Special Education Expenditures.....	31
Special Education Revenues.....	35
IV. STUDY FINDINGS.....	40
Audits.....	40
Local General Fund Contribution.....	46
Service Proportions.....	55
Waivers.....	67
Special Transportation.....	72
V. CONCLUSION.....	79

INTRODUCTION

The Master Plan for Special Education (MPSE) is the program and funding framework through which California provides educational and related services to students with physical or mental disabilities and students with learning or communication problems. Under the master plan, funding is provided for special education programs, based on the cost of (a) direct instructional services and (b) ancillary support services.

Chapter 797, Statutes of 1980 (Senate Bill 1870), requires the Legislative Analyst to submit reports to the Legislature on the master plan. These reports are to address the following five topics:

1. The findings from audits of school districts and county offices of education which spend more than a specified amount for special education support services.

2. The amount of the "local general fund contribution" toward special education made by each district operating a special education program.

3. The effect of statutory provisions which limit the number of state-funded special education students that may be assigned to a particular instructional setting.

4. The status of certain requests for waivers submitted to the Superintendent of Public Instruction by local education agencies.

5. The implementation of provisions relating to state reimbursement of districts and county offices of education for costs of transporting special education students.

In January 1982, the Legislative Analyst's office released the first of the reports required by Ch 797. This report (The Master Plan for Special Education: A Report on the Implementation of SB 1870) noted that provisions of SB 1870 were partly responsible for the deficits in the MPSE during 1980-81. Some of these provisions, however, were no longer operative, due to the enactment of Senate Bill 769 (Chapter 1094, Statutes of 1981). Subsequently, in both the 1982 and 1983 Budget Acts, the Legislature made further changes in the funding mechanism for the MPSE. These changes delayed our reports for 1981-82 and 1982-83.

During the course of our review, some deficiencies in the special education program became evident. We discussed these problems in our Analysis of the Budget Bill, where we made recommendations for specific changes in the program. Those recommendations were adopted by the Legislature and are reflected in the 1984 Budget Act and the accompanying trailer bill. Consequently, this report (which includes our analysis of the master plan for both 1981-82 and 1982-83) offers few additional recommendations for specific changes in the program. Rather, the report provides information on particular aspects of the program as directed by SB 1870.

In order to comply with the provisions of SB 1870, we (a) reviewed various reports on special education programs and the state's Master Plan

for Special Education, (b) met with numerous special education administrators throughout the state, and (c) analyzed data provided by the State Department of Education. We also analyzed the various bills which have amended special education laws since the enactment of SB 1870, including changes brought about by Senate Bill 813 (Chapter 498, Statutes of 1983), the 1984 Budget Act (Chapter 258, Statutes of 1984), and the accompanying budget trailer bill (Chapter 268, Statutes of 1984).

Chapter I of this report contains background information on federal laws and judicial decisions which have influenced the development of programs for handicapped children, and provides a brief history of the state's special education program. Chapter II examines the governance structure of the master plan and the services provided under the program. Chapter III presents the various revenue and expenditure components of the funding model. In Chapter IV, we present the results of our study.

This report was prepared by Robert Miyashiro under the supervision of Ray Reinhard and Hal Geiogue.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

CHAPTER I: BACKGROUND

- California's Master Plan for Special Education (MPSE) has been shaped by three separate forces:

- action by the California Legislature, in the form of SB 1870 (Ch 797/80), SB 769 (Ch 1094/81), and SB 1345 (Ch 1201/82),

- federal legislation, such as P.L. 91-230, Section 504 of the Rehabilitation Act of 1973, and P.L. 94-142, and

- court rulings, such as those in the PARC v. Pennsylvania and Mills v. The Board of Education of the District of Columbia cases.

CHAPTER II: MASTER PLAN SERVICE MODEL

- In 1984-85, approximately 383,180 students received services under the master plan.

- The model used to provide these services was designed, in part, to take advantage of economies of scale by having districts pool their resources on a regional basis.

- Prior to enactment of the master plan, special education services were funded on a categorical basis, which sometimes resulted in the provision of inappropriate or inadequate services to students.

- The Master Plan for Special Education provides, in addition to direct instructional services, an array of support and ancillary services.

- Students receive educational services through at least one of four educational settings: special day classes (SDCs), which are small

classes for the most severely handicapped students, resource specialist programs (RSPs), which supplement regular education classes for less severely handicapped students, designated instruction and services (DIS), which provide special services such as speech therapy and counseling to students in conjunction with their regular or special education classes, and nonpublic schools (NPSs), which provide services not available in the public school setting.

CHAPTER III: MASTER PLAN FUNDING MODEL

- Total funding for special education, from all sources, was \$1,238 million in 1981-82, \$1,254 million in 1982-83, \$1,355 million in 1983-84, and \$1,339 million in 1984-85.

- Both state and local officials have expressed dissatisfaction with the master plan as a funding model.

- The master plan funding model consists of an entitlement system under which each district's allocation of state aid is determined by (1) reported special education costs in 1979-80, (2) current service levels, (3) other special education revenues, and (4) the rate of inflation.

- The entitlement system recognizes various special education costs including (1) direct instructional costs (salaries and benefits), (2) support services costs (administration, supplies, and pupil services), (3) nonpublic school tuition costs, and (4) other program costs.

- Special education revenues include (1) Budget Act appropriations, (2) federal funds, (3) county property taxes, (4) negative entitlements (special education revenues in excess of entitlements), (5) special day

class revenue limits, (6) local general fund contributions, and (7) "encroachment" (actual local general fund expenditures in excess of all other revenue sources).

CHAPTER IV: STUDY FINDINGS

Audits

- In 1979-80, 188 of 789 local education agencies (LEAs) reported support services ratios (support services costs to direct instructional costs) exceeding 125 percent of the statewide average.

- Between October 1981 and May 1982, the Controller conducted audits of 35 LEAs with support services ratios exceeding 125 percent of the statewide average. He found that (1) 20 of the LEAs charged to their special education programs part of the costs for district administration and operation without maintaining adequate supporting documentation and (2) 18 of the LEAs allocated support costs to their special education programs using allocation methods that had not been prescribed in the school accounting manual.

- The Department of Education has taken no direct action in response to the Controller's findings. The department maintains that the findings are not relevant, given (1) the type of the audits conducted by the Controller and (2) the effects of legislation enacted since statewide implementation of the master plan.

Our review indicates that the department's conclusions regarding the Controller's findings are valid. Consequently, we do not recommend that the support services ratios of these 35 LEAs be recomputed to reflect only

those support costs allowed by the Controller. Rather, we recommend that any recomputation of support services ratios await the development and implementation of uniform cost-accounting guidelines that require adequate documentation of all local support costs.

Local General Fund Contribution (LGFC)

- The local general fund contribution (LGFC) is the amount of funds redirected from a district's general fund to support the special education program in 1979-80, the base year used to determine special education entitlements.

- The LGFC of all districts combined accounted for approximately 13.5 percent of total special education revenues in 1981-82.

- There were 118 districts that had no LGFC in 1982-83.

- Among districts that reported making a LGFC in 1982-83, the contribution per unit of average daily attendance (ADA) ranged from 20 cents to \$296.96. In the case of those districts reporting the highest LGFC per unit of ADA, their contributions accounted for 6.7 percent of the total revenue limit per ADA.

- The data suggest that there is no significant relationship between the LGFC per ADA and either district size (as measured by ADA) or district type (high school, elementary, and unified).

- In a 1980-81 report, the Department of Education concluded that there was no significant relationship between the LGFC per ADA and six district characteristics: (1) base revenue limits, (2) size as measured by ADA, (3) number of teachers, (4) teacher salaries, (5) district type, and (6) district location.

- It appears that local priorities, rather than particular district characteristics, determined the extent to which funds from a district's general fund were redirected in 1979-80 to support the special education program.

- The LGFC is treated as a source of revenues for a district's special education program but is not annually adjusted either for inflation or increases in workload. We recommend that, in order to maintain the existing degree of local school district support for special education, the LGFC be (1) adjusted annually for inflation using the same COLA that is applied to school apportionment revenue limits, and (2) adjusted annually to reflect increases in school district enrollments.

SERVICE PROPORTIONS

- The data suggest that a 1982 freeze on further growth in the number of state-funded instructional units brought about a redistribution of students among the instructional settings.

- In fact, total special education enrollment fell one-half of 1 percent between 1981-82 and 1982-83, from 364,338 to 362,723. Enrollment declines were registered in designated instruction and services and nonpublic schools instructional settings, while increases were registered in special day classes and resource specialist settings.

- Local program administrators indicate that, in some cases, special day class units are exchanged for resource specialist units because the class size in the latter instructional setting is higher--thereby making possible an increase in special education enrollments without a commensurate increase in local entitlements and state costs.

- Special day classes accounted for roughly one-half of the special education instructional units operated in both 1981-82 and 1982-83. Enrollment in these classes, on average, conforms to the class sizes prescribed by Ch 797/80.

- In 1981-82 through 1983-84, roughly 27 percent of the special education classes were operated as resource specialist classes, while designated instruction and services (DIS) classes accounted for 25 percent of the total. Enrollment in these classes, on average, meet the statewide targets of 22 and 21 students, respectively.

- In 1981-82, LEAs operated 453 special education instructional units which received no state funding. In the following year, the number of these units dropped to 302.

Waivers

- Because the 1982 Budget Act provided no funds for enrollment growth, no waivers for enrollment limits were granted in 1982-83.

- In 1981-82, 37 special education local plan areas (SELPAs) requested waivers of the enrollment limits imposed by existing law. In response, a total of 294 additional instructional units was authorized for state funding. Because SELPAs lost authorization for 168 instructional units in 1981-82, there was a net increase of 126 instructional units in that year.

- Roughly one-half of the waivers granted by the department authorized districts to provide additional instructional units in the RSP setting.

- Of the 168 instructional units recaptured by the state in 1981-82, 133 had been offered in the special day class setting.
- Districts and county offices of education cited the problem of providing transportation to children in sparsely populated areas the primary reason for seeking waivers.
- We estimate that the total cost of the waivers approved for 1981-82 was \$4.8 million.
- In 1984-85, 11 SELPAs were granted waivers from class size standards on existing units, and 12 SELPAs were granted waivers from class size standards on new units.
- We estimate that the total cost of waivers approved for 1984-85 was \$4.3 million. Approximately 60 percent of these costs was due to waivers for SELPAs containing large numbers of licensed children's institutions, and 40 percent of the total reflects waivers for low population density.

Special Transportation

- The special transportation program has incurred significant entitlement deficits since 1980-81, ranging from \$27.1 million in 1982-83 to \$8.4 million in 1980-81. Because of these deficits, LEAs received only 75 cents for every dollar of transportation aid to which they were entitled in 1982-83.
- LEAs transported 77,996 students in 1982-83, an increase of 6,097 students--or 8.5 percent--from the 1981-82 level. Districts were responsible for transporting roughly two-thirds of these students, while

county offices of education were responsible for transporting the remaining third.

- Per-pupil entitlements for districts equaled \$1,401 in 1982-83--an amount that was essentially unchanged from the 1981-82 level. Per-pupil entitlements for county offices equaled \$2,076 in 1982-83, an increase of almost 13 percent over the 1981-82 level.

- Senate Bill 813 (Ch 498/83) eliminates special transportation as a separate program commencing in 1984-85, and requires each district to establish a separate transportation fund to support its transportation program.

- Senate Bill 813 requires that students with exceptional needs be served through the regular Home-to-School Transportation program, commencing in 1984-85. At the time of SB 813's enactment, however, this program authorized only round trip transportation from home to school; it did not provide funding for the transportation of handicapped students to and from sites where "related services" specified in a student's individualized education program (IEP) are provided.

- The 1984 Budget Act and accompanying trailer bill provide that, for 1984-85, home-to-school transportation allowances shall include reimbursement for costs incurred in transporting students with exceptional needs to and from related services, as specified in the students' IEPs. The funding of IEP related transportation through the home-to-school transportation allowance was made permanent by the enactment of AB 2557 (Ch 115/84).

CHAPTER I
BACKGROUND

The methods used to provide special education services in California reflect the requirements set forth in federal legislation and judicial decisions, as well as the laws enacted by the California Legislature. This section provides a brief overview of how programs serving children with exceptional needs have developed over time.

A. Federal Legislation Affecting Special Education

In 1966, Congress adopted Title VI of the Elementary and Secondary Education Act. This title established the Bureau of Education for the Handicapped (BEH) and initiated a grant program to assist states in developing their own special education programs. In 1970, Congress approved P.L. 91-230, The Education for the Handicapped Act, which increased the authority of BEH to disburse grants.

Public Law 93-112, the Rehabilitation Act of 1973, and the regulations that accompanied it, significantly expanded the rights of the handicapped. Specifically, Section 504 of the act required buildings constructed with federal funds to be accessible to the handicapped. In November 1974, Congress further amended the federal special education law by enacting P.L. 93-380. This measure requires states to provide full educational services to handicapped pupils and to develop plans for delivering these services.

A year later, in November 1975, Congress enacted what still is the most comprehensive measure on the books which defines the rights of handicapped children to educational services--Public Law 94-142, the Education for All Handicapped Children Act. This measure sought to bring handicapped children into the mainstream of public education.

Specifically, Public Law 94-142 provided for:

- The right of every handicapped child to a "free, appropriate public education" and related services;
- Procedural safeguards to ensure the rights of handicapped children including due process requirements;
- Education to be provided in the least restrictive environment, in order to promote interaction with nonhandicapped students;
- Grants to states and school districts to assist in the development and implementation of special education programs.

While the federal law called for all handicapped individuals between the ages of 3 and 21 years to be served by September 1980, it did not specify how the states were to comply with this mandate. Consequently, different service delivery models have been developed in different parts of the country.

B. Court Rulings Affecting Special Education

During the 1970's, many parents of handicapped children brought suits against school districts in an attempt to secure better educational services for their children. The most important of these cases were Pennsylvania Association for Retarded Children v. Pennsylvania and Mills v. the Board of Education of the District of Columbia.

In PARC v. Pennsylvania (1972), the plaintiffs maintained that the state had failed to provide educational programs for all retarded children. They argued that handicapped individuals had a constitutional right to an education and that exclusion of the severely handicapped from schools constituted a denial of equal protection. Moreover, the plaintiffs claimed that placement of handicapped children in special programs without notice and a hearing constituted a violation of due process guarantees.

The PARC suit ultimately was settled through a consent agreement in which the state agreed to identify handicapped children, provide them with a suitable education, integrate them with nonhandicapped children when appropriate, and provide procedural safeguards through due process hearings.

In Mills v. the Board of Education of the District of Columbia (1972), the plaintiffs challenged the school district's practice of excluding the handicapped from the public schools. The court ruled in favor of the plaintiffs, stating that all children, regardless of whether they are handicapped, have a constitutional right to a "suitable publicly supported education." The court also ruled that the high cost of programs for the handicapped could not justify a district's failure to provide them. In addition, the court established comprehensive procedural safeguards to resolve disputes over the appropriateness of educational services.

Other parents and special education advocates used the strategies employed by the plaintiff's in PARC and Mills to develop subsequent cases against school districts and states. By 1973, 27 right-to-education

lawsuits had been filed. Congress also used the court's decisions in PARC and Mills as the basis for narrowing the conditions under which states could receive federal funds for their special education programs. The courts' decisions influenced both the Education of the Handicapped Act (1974) and the Education for All Handicapped Children Act (1975).

C. California Legislation Affecting Special Education

California began providing educational services to handicapped students in 1860 when it established the School for the Deaf and Blind in San Francisco. Today, there are six state-supported special schools serving deaf, blind, and neurologically handicapped students. In addition, 800 school districts and county offices of education provide educational services directly to students.

During the first half of this century, the Legislature established a number of programs to serve the needs of individuals with particular types of handicapping conditions. In 1947, programs for the educable mentally retarded were started and, in 1963, school districts were required to serve students with emotional or neurological handicaps. By 1970, a total of 28 separate categorical programs were serving specific handicapped populations.

The state's strategy of providing educational services through separate categorical programs had several drawbacks. First, the eligibility criteria of individual programs tended to exclude pupils who did not fall within an easily defined special education category. As a result, some individuals "fell through the cracks" of the categorical programs and went unserved.

Second, this strategy frequently allowed local school districts to take advantage of the state in a way that contributed little to the Legislature's program objectives. Funding for most categorical programs was based on the excess cost of providing the particular service--that is, the cost above and beyond that of the regular education program. These funds then were allocated on a per-pupil basis, with allowances made for the age, grade level, and the handicapping condition of those being served, as well as for the number of students in the class. School districts could exploit this system by over-enrolling students with mild handicaps in order to subsidize the high-cost programs.

Recognizing these shortcomings of the categorical funding model, the California State Board of Education, on January 10, 1974, endorsed the creation of a Master Plan for Special Education (MPSE). The MPSE was based on the following concepts:

- That all individuals with exceptional needs are entitled to an appropriate education;
- That the student should be assigned to an educational program in the least restrictive environment;
- That school districts should develop regional plans to take advantage of economies of scale;
- That efforts should be taken to avoid the unnecessary "labeling" of students.

Later that year, the Legislature began to implement the MPSE by enacting Assembly Bill 4040 (Chapter 1532, Statutes of 1974). This measure

authorized a three-year special education program to be implemented on a pilot basis in 10 districts. Under the program, students received both special education and related services, and the 10 districts received state assistance for support costs as well as for direct instructional costs. Assembly Bill 4040 also authorized counties to levy a special tax in order to augment funding of their special education programs.

In 1977, the Legislature enacted Assembly Bill 1250 (Chapter 1247, Statutes of 1977), which authorized statewide implementation of the master plan. The law also specified that each student should be educated according to his or her individual needs, as outlined in the individualized education program (IEP), rather than on the basis of his or her handicapping condition. The law also clarified some provisions of then-existing law regarding due process procedures, labeling of students, and education in the least restrictive environment. Finally, AB 1250 granted taxing authority to the county superintendents, and authorized MPSE districts to receive a portion of their funds from the county offices.

In June 1978, the voters approved Proposition 13, which eliminated the local taxing authorizations contained in AB 1250 and AB 4040.

Senate Bill 1870 (Ch 797/80), the next major special education bill passed by the Legislature, restructured the special education funding model. The act established 1979-80 as the base year to be used in determining the amount of state aid for districts' special education costs, and provided that state aid in subsequent years would be based on 1979-80 costs plus an adjustment to reflect inflation. Senate Bill 1870 also

required all school districts to enter the master plan by 1981-82, thus eliminating the dual service delivery system for handicapped children.

In 1981, it became apparent that the cost of implementing the master plan statewide would greatly exceed the estimates upon which the 1981 Budget Act appropriation was based. In fact, a deficit of approximately \$200 million was projected for 1981-82 if no legislative action to alter the program was taken.

In response to these projections, the Legislature enacted SB 769 (Ch 1094/81). This measure altered many of SB 1870's entitlement provisions. It also relaxed some of the mandates imposed on school districts, halting state reimbursement for certain costs associated with the special education program. Since school districts had expected to be reimbursed for these costs, SB 769 had the effect of transferring part of the special education deficit from the state to the school districts.

During 1982, the Legislature sought to ameliorate some of the problems that school districts faced as a result of SB 769. It appropriated \$35 million to partially fund the 1981-82 special education deficit and enacted Senate Bill 1345 (Chapter 1201, Statutes of 1982) which reduced or eliminated some of the state mandates previously imposed on school districts. Like SB 769, SB 1345 also changed some entitlement formulas to reduce state costs. These changes yielded a reduction in state costs totaling \$12 million.

CHAPTER II
MASTER PLAN SERVICE MODEL

Today, students in California who have a handicap or some exceptional need receive educational services through the Master Plan for Special Education (MPSE). In 1984-85, approximately 383,180 students received services under this program. This chapter presents a description of (1) the governance structure of the MPSE, (2) the support services provided to students and parents, and (3) the educational settings in which services are provided.

A. Governance Structure

One of the major features of the MPSE that distinguishes it from earlier service delivery models is the way in which school districts and county offices of education are organized into regional entities. These regional entities, called Special Education Local Plan Areas (SELPA), are responsible for providing services to all handicapped students residing within their jurisdictions. There are 98 SELPAs throughout the state. A single district or the county office of education in each SELPA is designated as the responsible local agency (RLA) to coordinate the programs of the districts within the SELPA and to ensure that regional services are provided. In addition, each member of the SELPA is required to adopt a written plan which specifies its responsibilities.

The concept of providing special education services on a regional basis was adopted, in part, because of the problems faced by small school

districts. Prior to the adoption of SB 1870, each school district was responsible for serving only the handicapped students within its jurisdiction. Some of the smaller districts faced many difficulties in meeting this responsibility, because they lacked the qualified personnel and resources needed to serve all of the students with unique needs. By pooling resources, districts were able to take advantage of economies of scale and, through contractual agreements, offer services that they would not be able to provide on their own.

B. MPSE Services

Under the master plan, the services provided to handicapped children are organized into three broad categories--(1) instruction, (2) regionalized services and program specialists, and (3) transportation.

1. Instructional Settings. Local education agencies offering special education programs provide services to handicapped students in three instructional settings. When the needs of the student cannot be met in these settings, the MPSE calls for children to be referred to nonpublic, nonsectarian schools. A brief description of the characteristics of the three instructional settings available in the public schools and the features of some nonpublic schools follows.

a. Special Day Classes (SDC). Special day classes constitute the most restrictive instructional setting offered by the public schools. These classes serve the most severely handicapped students, such as those who are autistic, mentally retarded, or who are severely learning disabled.

SDCs are offered both at the regular school site and at special education centers. Depending on the severity of their handicaps, students in on-school site classrooms may be allowed to mingle with nonhandicapped students during the nonacademic portions of the school day. Those assigned to special education centers, however, do not have this opportunity.

Students in SDCs usually receive small group instruction or individual instruction from a special education teacher who is assisted by one or two aides. The program for the most severely handicapped may be limited to feeding, self-care training, and physical therapy.

b. Resource Specialist Program (RSP). The resource specialist program provides special education instruction and tutorial assistance to students who generally are less severely handicapped than students in SDCs. Most students in RSPs, however, have some form of educational handicap.

The instructional setting of a RSP is usually less restrictive than that of the SDC, and students enrolled in these programs are expected to attend regular education classes for a majority of the school day. The student's handicap, in general, does not prevent teaching him or her in a class with nonhandicapped students ("mainstreaming"), and the student's instructional plan is developed to promote such integration. In addition, the special education teacher is expected to work closely with the student's parents and regular teacher to ensure that all the steps for successful mainstreaming are taken.

c. Designated Instruction and Services (DIS). Students placed in the DIS program generally are less severely handicapped than those in SDCs.

These students may have learning disabilities or minor physical handicaps that require special attention. The handicapping conditions addressed in the DIS program include speech impediments, minor hearing losses, and minor vision handicaps.

DIS services are provided in conjunction with the student's regular (or special) education program. Students will typically leave their regular (or special day) classes for two or three hours each week in order to receive these services. Students who cannot participate in regular physical education activities receive DIS services in the form of modified physical education programs, and students with learning disabilities, emotional or behavioral disorders receive special instruction and tutorial assistance on a one-to-one basis or in small groups of two to eight students.

d. Nonpublic Schools (NPS). The master plan recognizes that some students, because of a severe handicapping condition, may not be served adequately in a school district program; in these cases, placement in a nonpublic school offering specialized services is necessary. A district may contract with a nonpublic school to secure needed educational services for its students. When students are required to remain in residence at the NPS in order to benefit from the emotional services, LEAs are reimbursed for residential costs as well as the costs of direct instruction.

2. Regionalized Services and Program Specialists. The MPSE facilitates the provision of educational and related services within the SELPA by providing funds to support regionalized services and program

specialists. These funds are allocated to the responsible local agency (RLA) of the SELPA which distributes them to the member districts, according to the agreements specified in the local plan.

a. Regionalized Services. Regionalized services offered in the SELPA may include (1) programs for staff development and parent education, (2) program evaluations, (3) data collection and management information systems, (4) curriculum development, and (5) ongoing program reviews. The extent to which these services are provided depends, in large part, on the degree of cooperation among the member districts and the leadership offered by the RLA.

b. Program Specialist Services. The program specialist must be a special education teacher with advanced training in at least one type of major handicapping condition. The Education Code does not require the program specialist to perform particular duties, but specifies the general responsibilities that the individual may undertake. These may include (1) consulting with other special education teachers, (2) planning programs, (3) coordinating curricular resources, (4) participating in staff development programs, and (5) ensuring that students are provided full educational opportunities in all districts within the SELPA.

3. Special Transportation. School districts and county offices of education must provide transportation programs for students with exceptional needs. Reimbursement for transportation expenses is based on costs incurred in the prior year. In no case, however, may a district or county office receive funding for costs that exceed 125 percent of the

statewide average. The state reimburses school districts for 80 percent of their approved costs in the prior year, while county offices of education receive reimbursement for 100 percent of their prior-year costs. Unlike school districts, county offices are not required by the state to fund a portion of their transportation costs with local revenues. This is because county offices' funds are earmarked for specific county programs and, therefore, county offices do not have general purpose funds from which to provide a transportation match.

Senate Bill 1345 (Ch 1201/82), enacted in response to the continuing deficits in special education funding, restricted the conditions under which the state would provide reimbursement for special transportation costs. The act's provisions were designed to encourage districts to transport students with nonsevere handicaps in the same vehicle with regular education students, as part of their Home-to-School Transportation program.

Senate Bill 813 eliminated special transportation as a separate program. Instead, it specified that, beginning in 1984-85, students with exceptional needs shall receive services through the regular Home-to-School Transportation program. More recently, the 1984 Budget Act and the trailer bill which accompanied it, authorized for 1984-85 only, local education agencies to receive Home-to-School Transportation allowances for transportation cost associated with both (1) round-trip service from home to school and (2) service to and from sites providing related special education services as specified in the student's individualized education

program. The 1985 Budget Act, and AB 2557 (Ch 115/84), provided that for 1985-86 and beyond, reimbursement for transportation costs associated with related services will continue to be provided under the Home-to-School Transportation program.

CHAPTER III
MASTER PLAN FUNDING MODEL

As a service delivery model, the Master Plan for Special Education is endorsed by both the recipients of special education services and the local program providers. As a funding model, however, the master plan does not enjoy similar support. School district administrators have complained that the funding model is exceedingly complex and does not allocate state funds equitably. The funding model also causes problems for the State Department of Education (SDE). Because of the many revenue and expenditure components of the master plan and their interactive relationships, it is difficult for SDE to estimate accurately the amount needed for the program from the General Fund. In fact, the program has incurred funding deficits each year since the enactment of SB 1870 in 1980.

In this section, we describe the basic revenue and expenditure components of the MPSE and discuss how these components interact to complicate statewide budgeting for the program.

A. Statewide Special Education Revenues and Expenditures

Tables 1, 2, 3, and 4 display the total statewide revenues and expenditures for the special education program in 1981-82, 1982-83, 1983-84, and 1984-85, respectively. These tables are based on data collected by the SDE in connection with the second principal apportionment for the four years. Total revenues for each year include funds appropriated in the subsequent year's Budget Act as a deficiency appropriation.

Table 1
 Statewide Costs
 Special Education Program
 1981-82
 (in thousands)

Funding Sources for Entitlements

General Fund:	
● 1981 Budget Act Appropriation	\$677,748
● Deficit Appropriation	<u>35,000</u>
Subtotal, General Fund	\$712,748
Federal Funds	\$68,292
County Property Taxes	64,221
Negative Entitlements ^a	-3,670
Unexpended 1980-81 Funds	5,706
Revenue Limits:	
● Districts	157,465
● Counties	<u>41,176</u>
Subtotal, Revenue Limits	\$198,641
Local General Fund Contribution	\$167,429
Remaining Deficit	<u>24,507</u>
Total	\$1,237,873

Factors Used to Derive Entitlements

Total Program	\$1,121,617
● Special Day Class	(\$265,424)
● Designated Instruction and Services	(135,121)
● Resource Specialist Program	(153,969)
● Aides	(139,020)
● Support Services	(361,020)
● Extended Year	(32,917)
● Nonpublic Schools	(32,073)
● Infants	(2,072)
Transportation	91,437
Regionalized Services/Program Specialist	<u>24,819</u>
Total	\$1,237,873

a. Negative entitlements result when the revenues available to a special education program operated by a county office of education exceed the program's entitlement. The excess revenues are allocated to districts within the county based on each district's special education enrollment.

Table 2

Statewide Costs
Special Education Program
1982-83
(in thousands)

Funding Sources for Entitlements

General Fund	
● 1982 Budget Act Appropriation	\$693,020
● Deficit Appropriation	<u>23,500</u>
Subtotal, General Fund	\$716,520
Federal Funds	\$71,100
County Property Taxes	63,871
Negative Entitlements ^a	-1,066
Revenue Limits:	
● Districts	163,512
● Counties	<u>43,972</u>
Subtotal, Revenue Limits	\$207,484
Local General Fund Contribution	\$167,505
Remaining Deficit	<u>28,152</u>
Total	\$1,253,565

Factors Used to Derive Entitlements

Total Program	\$1,121,006
● Special Day Class	(\$265,746)
● Designated Instruction and Services	(134,730)
● Resource Specialist Program	(156,746)
● Aides	(141,024)
● Support Services	(356,003)
● Extended Year	(32,724)
● Nonpublic Schools	(32,161)
● Infants	(1,873)
Transportation	107,357
Regionalized Services/Program Specialist	<u>25,202</u>
Total	\$1,253,565

- a. Negative entitlements result when the revenues available to a special education program operated by a county office of education exceed the program's entitlement. The excess revenues are allocated to districts within the county based on each district's special education enrollment.

Table 3

Statewide Costs
Special Education Program
1983-84
(in thousands)

Funding Sources for Entitlements

General Fund	
● 1983 Budget Act Appropriation	\$772,477
● Deficit Appropriation	<u>39,124</u>
Subtotal, General Fund	\$811,601
Federal Funds	81,326
County Property Taxes	66,479
Negative Entitlements ^a	(99)
Revenue Limits:	
● Districts	180,883
● Counties	<u>46,936</u>
Subtotal, Revenue Limits	\$227,819
Local General Fund Contribution	167,550
Remaining Deficit	<u>--</u>
Total	\$1,354,676

Factors Used to Derive Entitlements

Total Program	\$1,214,625
● Special Day Class	(\$289,507)
● Designated Instruction and Services	(144,284)
● Resource Specialist Program	(170,629)
● Aides	(155,264)
● Support Services	(388,014)
● Extended Year	(33,168)
● Nonpublic Schools	(31,605)
● Infants	(2,154)
Transportation	112,627
Regionalized Services/Program Specialist	<u>27,424</u>
Total	\$1,354,676

- a. Negative entitlements result when the revenues available to a special education program operated by a county office of education exceed the program's entitlement. The excess revenues are allocated to districts within the county based on each district's special education enrollment.

Table 4
 Statewide Costs
 Special Education Program
 1984-85
 (in thousands)

Funding Sources for Entitlements

General Fund	
● 1983 Budget Act Appropriation	\$764,756
● Deficit Appropriation	9,092
● Prior Year Funding ^a	<u>(1,346)</u>
Subtotal, General Fund	\$772,502
Federal Funds	76,903
County Property Taxes ^b	71,940
Negative Entitlements ^b	(126)
Revenue Limits:	
● Districts	197,521
● Counties	<u>51,642</u>
Subtotal, Revenue Limits	\$249,163
Local General Fund Contribution	166,183
Remaining Deficit	<u>2,287</u>
Total	\$1,338,852

Factors Used to Derive Entitlements

Total Program	\$1,309,551
● Special Day Class	(\$311,546)
● Designated Instruction and Services	(150,257)
● Resource Specialist Program	(185,722)
● Aides	(168,752)
● Support Services	(419,083)
● Extended Year	(36,804)
● Nonpublic Schools	(35,195)
● Infants	(2,192)
Regionalized Services/Program Specialist	<u>29,301</u>
Total	\$1,338,852

- a. This amount was used to reduce prior-year deficiencies.
 b. Negative entitlements result when the revenues available to a special education program operated by a county office of education exceed the program's entitlement. The excess revenues are allocated to districts within the county based on each district's special education enrollment.

B. Special Education Expenditures By Component

The MPSE funding model is basically an entitlement system. The amount of state aid received by each district is not a direct function of its current-year costs but, instead, is a function of (1) the reported cost of its special education program in 1979-80, adjusted for inflation, (2) the district's current service level, and (3) the total amount of aid received by the district from other sources. Those who developed the funding model believed that a cost-based system would allow each district to provide appropriate special education services regardless of the unique costs circumstances facing the district. The state, in turn, is supposed to fund any excess costs incurred by the district.

The current system, however, does not reimburse all districts for the full amount of their special education costs. During the spring of 1981, when full implementation of the master plan was in process, state officials realized that total statewide entitlements under the program exceeded the amount of revenues available. Subsequently, legislation was enacted reducing the districts' entitlement to state funds, thereby reducing the state's financial obligation under the program. As a result, school districts had to reduce program costs in order to stay within the revenues available for their special education programs.

A brief discussion of each of the cost components of the MPSE entitlement system is presented below.

1. Direct Instructional Costs. In order to determine each district's base-year (1979-80) entitlement to state special education funds, the SDE required each district to submit various reports on the cost

of its programs. One component of these costs--salaries and benefits for teachers and instructional aides--is referred to as direct instructional costs.

Direct instructional costs for the regular 1979-80 school year were used to establish district-specific reimbursement rates--or unit rates--for each instructional setting. In other words, the salary and benefits paid provided to a teacher and aide(s) in each type of class offered--special day classes, resource specialist program, and designated instruction and services--were used to establish the district's unit rates. A portion of the district's entitlement to state aid depends on these rates.

Districts that did not operate a special education program in 1979-80 and, consequently, reported no instructional costs for that year are nevertheless allowed to receive state aid. The amount of their entitlement is based on the year in which their program was established. These districts, however, are funded at the statewide average unit rate for each instructional setting.

2. Support Services. School districts are also reimbursed for the costs of support services provided under their special education programs. Support costs generally include administrative costs, the cost of instructional materials and supplies, and the cost of various pupil services. Again, the level of reimbursement is based on expenditures made in 1979-80.

The special education funding formulas express support costs as a percentage of the district's direct instructional costs (referred to as the

"support services ratio"), and set the level of reimbursement to which the district is entitled on this basis.

Senate Bill 769 (Ch 1094/81), which was enacted to stem the burgeoning deficit in special education, significantly revised the method of computing support services ratios. The measure (a) reduced all support services ratios that were more than 50 percent above the statewide average to 1.5 times the average, (b) "froze" all ratios which were below the statewide average, and (c) "squeezed" the ratios falling between 1.5 times the average and the average toward the average. The measure also required that separate computations of support services ratios be made for classes serving severely handicapped students and nonseverely handicapped students, respectively.

3. Nonpublic Schools. If the program specified in the student's individualized education plan (IEP) cannot be provided by the home district, the district can place the student in a nonpublic, nonsectarian school. When this happens, the state reimburses the district for part of the tuition paid on behalf of these students. Specifically, the state provides 70 percent of the tuition in excess of the district's revenue limit and applicable federal funds for each student enrolled in a nonpublic school. Districts are expected to make up the difference using local general fund revenues. The state provides to county offices of education 100 percent funding for students living in licensed children's institutions who require educational services provided at nonpublic schools.

4. Other Program Costs. In addition to direct instructional costs, support services, and nonpublic school costs, the MPSE provides funding for aides, extended year programs, and infant programs. These components accounted for 14 percent of master plan costs in 1982-83.

Aides may be hired to assist special education teachers in the special day class program and the resource specialist program. Funding for aides is based on the average number of hours worked per day or the average annual salaries and benefits for six hours of aide time per day in 1979-80, whichever is higher.

Extended year programs (summer school) are available for students whose IEPs specify the need for continuous instruction throughout the year. Support for the summer programs is based on a fraction of the districts' instructional unit rates for the regular year. Funding is provided for a maximum of 30 days for programs serving nonseverely handicapped students and 55 days for the severely handicapped.

Finally, LEAs may receive support for special education programs serving infants up to three years of age. These programs are not available statewide, but are mandated in those school districts that offered infant programs in 1980-81. Districts subject to the mandate, however, can transfer their infant programs to another LEA. Funding is provided through competitive grants awarded by SDE and directly through the master plan.

5. Special Transportation. As discussed in the previous section, LEAs were authorized to receive state support for their special transportation programs, based on approved costs in the prior year. School

districts received reimbursement for 80 percent of their approved costs and county offices of education received funding for 100 percent of approved costs.

6. Regionalized Services and Program Specialists. LEAs also receive funding to coordinate regionalized services offered to all members of the SELPA. State funding is based on pupil counts, with LEAs receiving in 1984-85 \$79 per pupil--\$29 for regionalized services and \$50 for program specialists. The allocation of these funds among the members of the SELPA is determined at the local level, according to the local plan developed by the districts.

C. The Various Sources of Special Education Revenues

Under the master plan funding model, the amount of state support a district or county office of education receives depends on its total entitlement, less other special education revenues. In theory, the Budget Act appropriation for support of the master plan together with the other special education revenues should equal the sum of all district and county office entitlements. In practice, however, total support has fallen short of statewide entitlements in each year since statewide implementation of the MPSE in 1980-81; consequently, funding deficits have occurred each year. In this section, we discuss the revenue components of the MPSE funding model and the consequences of shortfalls in state support for the program.

1. The State General Fund. The Budget Act contains a General Fund appropriation for the MPSE, based on the latest estimate of the program's

budget-year requirements. The Budget Act's General Fund appropriation and revenues from other sources (discussed below) are supposed to fully fund the local entitlements, as determined by the MPSE funding formulas. In the event that the other revenues fall short of projections or local entitlements are greater than the estimates upon which the Budget Act appropriation was based, an entitlement deficit will occur.

Since 1980-81, the state's special education program has incurred significant entitlement deficits. The Legislature has chosen to fund a portion of these deficits from the state's General Fund. For example, the 1982 Budget Act contained a General Fund deficiency appropriation of \$35.0 million for the prior fiscal year. A \$23.5 million deficiency appropriation was provided in the 1983 Budget Act for the 1982-83 year and \$39.0 million was provided in Assembly Bill 3073 (Chapter 257, Statutes of 1984), the deficiency bill for 1983-84. Thus, state funding for master plan entitlements is provided in two annual installments--one in the Budget Act and the other through a deficiency appropriation. In 1984-85, the state General Fund provided 58 percent of MPSE support.

2. Federal Funds. Funds received from the federal government under the P.L. 94-142 program are also considered a revenue source to the MPSE. In accepting these funds, the state agrees to abide by the provisions of the Education for All Handicapped Children Act of 1975. The MPSE funding model reduces each LEA's entitlement to state aid by the amount of federal funds received. In 1984-85, federal funds provided 5.7 percent of MPSE support.

3. County Property Taxes. Prior to the enactment of Proposition 13, counties were permitted to levy an incremental tax on real property to fund special education programs operated by county offices of education. Since then, however, the revenues raised by these levies have been lumped in with all other property tax collections and are indistinguishable from other property tax revenues.

Nevertheless, existing law requires that the amount of local revenues collected from the supplemental special education property tax be allocated to the special education program. Moreover, the master plan funding model recognizes these revenues in determining the county office's entitlement to state funds. The historical ratio of special education property tax collections to total property tax collection in each county is used to determine the share of county property taxes that are to be considered revenues to the county's special education program.

School districts within the county generally do not receive property taxes unless they operate programs on behalf of the county office of education and have entered into an agreement with the county office to share in these revenues. In 1984-85, county property tax collection provided 5.4 percent of MPSE support.

4. Negative Entitlements. In the case of some county offices, total special education revenues from nonstate funding sources exceed their entitlements to state funds. Thus, these counties have a "negative entitlement." Senate Bill 769 (Ch 1094/81) required each such county to allocate on a per-pupil basis an amount equal to the negative entitlement

to districts within its jurisdiction. These funds are used as an offset to the affected districts' entitlements to state funds. In 1984-85, negative entitlements totaled \$126,000.

5. Special Day Class Revenue Limits. Students who are placed in an SDC program spend less than half of the school day in the district's regular education program. Some students, in fact, spend the entire instructional day in the special education program. For this reason, the funding model treats the revenue limit (the support provided per pupil for the regular education program) attributable to the SDC students as an offset to the district's special education entitlement. Service providers are expected to use the revenue limits of the SDC students to fund the special education program, although an actual transfer of the funds is not required. In 1984-85, revenue limits provided 18.6 percent of MPSE support.

6. Local General Fund Contribution (LGFC). In 1979-80, the base year used to determine master plan reimbursement rates, most districts redirected funds from their regular programs to fund their special education programs. The amount redirected is referred to as the district's local general fund contribution (LGFC). The MPSE funding model treats the 1979-80 contribution as another source of revenues for special education and makes a corresponding reduction in the district's entitlement. Although districts are expected to continue their LGFC, they are not required to shift the funds. In 1984-85, LGFC provided 12.4 percent of MPSE support.

The LGFC is a fixed dollar amount that generally remains constant from one year to the next: it is not adjusted for inflation or for increases in school district enrollments. (It is adjusted for enrollment decreases, however).

7. Deficit. When the sum of all revenues available to special education falls short of the total statewide entitlement, the program experiences a funding deficit. The SDE estimates that, in 1984-85, total revenues fell short of entitlements by \$2.3 million.

CHAPTER IV
STUDY FINDINGS

Chapter 797, Statutes of 1980 (SB 1870), requires the Legislative Analyst to prepare a report on the following five topics related to the Master Plan for Special Education: (1) audits of support service costs reported by school districts and county offices, (2) the local general fund contribution (LGFC) of school districts to the special education program, (3) statewide service proportions, (4) requests for waivers of the act's provisions, and (5) special transportation funding. This chapter presents the results of our study.

A. Audits of Support Services Costs

Chapter 797 appropriated \$300,000 to the State Controller to audit the special education expenditures of those districts and county offices of education with support services ratios exceeding 125 percent of the statewide average ratio for comparably sized districts in 1979-80. (The Education Code defines a support services ratio as the ratio of a district's support services costs to its direct instructional costs for 1979-80.) Support services generally include such elements as pupil assessments, instructional materials, classroom maintenance, and overhead and administrative costs. Direct instructional costs are the salary and benefit costs of special education teachers and aides.

In 1979-80, claims for reimbursement of special education costs were submitted by 789 local education agencies. Of these, 188 had support

services ratios exceeding 125 percent of the statewide average ratio for their classification.

1. Controller's Findings. Between October 1981 and May 1982, the Controller audited 35 districts' support service costs, based on the recommendation of the Superintendent of Public Instruction.

The Controller identified two primary objectives for the audits. First, the audits were to "determine the extent to which the costs used to calculate the reported quotient...(were) properly supported by accounting records and supporting data." Second, the audits were to provide the basis for a recomputation of the support services ratio, based on costs supported by accounting records and other data.

In conducting the audits, the Controller relied on information in the following documents:

- The 1980 edition of the California School Accounting Manual.
- The instructions which accompany the J-50 series apportionment reports (special education).
- Instructions and interpretations from the Department of Education.

According to the Controller, care should be taken in making inferences from the audit results. In some cases, districts indicated that they wished to appeal the audit findings, but the results of any appeals are not reflected in the Controller's findings. In addition, the LEAs that were audited were not selected on a random basis and were not intended to be representative of all LEAs with high support services ratios.

Consequently, it would not be appropriate to generalize from the audit findings covering these 35 LEAs to the entire group of special education providers--or even to those with high support costs.

The Controller's audits encompassed \$31.3 million in reported support costs. Of this amount, the Controller disallowed \$5.2 million. If the disallowances had been recognized in computing the districts' support service ratios, the average ratio for the group would have been reduced from .85 to .51. In other words, if the support services ratios were reduced in accordance with the Controller's findings, the 35 districts, on average, would have been entitled to 51 cents for support services for every dollar in direct instructional costs, instead of 85 cents. The actual support services ratios for the 35 LEAs, however, were not recomputed as a result of these audits.

The Controller found that 20 of the 35 LEAs charged to their special education programs part of their administrative and operating costs without maintaining adequate documentation to support the charge. Other types of support costs also were not adequately documented. The Controller indicated that the California School Accounting Manual authorizes certain methods for allocating support costs, but does not prescribe the forms of documentation that are required to substantiate an LEA's claims. Thus, it is not surprising that many districts and county offices of education failed to maintain the documentation sought by the Controller's staff.

As a result of this finding, the Controller recommended that "the Department of Education revise the California School Accounting Manual to

require LEAs to prepare and maintain adequate documentation in support of allocated costs" (emphasis in original).

The audits also revealed that 18 of the 35 LEAs allocated support costs to the special education program using allocation methods that had not been prescribed in the California School Accounting Manual. The Controller disallowed costs that were allocated by methods other than those prescribed in the manual.

School district and county office staff defended their allocation methods by arguing that (1) some of the methods approved in the manual cannot be applied to the special education program, (2) the allocation methods enumerated in the manual are recommendations, not requirements, and (3) SDE had authorized the use of some allocation methods which were not specifically approved in the manual.

As a result of these findings and the comments received from school district and county office staff, the Controller recommended that "the State Department of Education revise the California School Accounting Manual to clarify and underscore its intent to require LEAs to adhere to the specific allocation methods prescribed in the manual."

Finally, the Controller pointed out that SDE had not agreed to establish an appeals procedure to resolve disputes concerning its audit findings. The Controller recommended that SDE "develop and implement an appeals procedure so that audit issues may be resolved on a timely basis." The Controller also recommended that SDE use the audit findings to study alternative methods of calculating special education entitlements and,

based on the results of the study, develop an appeals process to resolve audit disputes.

2. Department of Education's Response. The Department of Education has taken no action in response to either the Controller's audit findings or to his recommendations. The department did not make adjustments to the support services ratios of the 35 LEAs that were subject to the audit, nor did the department propose changes to the California School Accounting Manual, as recommended by the Controller.

Department of Education staff cited two reasons why they believe that specific action is not warranted at this time.

First, they maintain that the Controller's staff did not perform standard audits of the 35 LEAs. Instead, the Controller examined only the costs that should not have been assigned to the special education program. The inquiry did not attempt to determine the "real" cost of the special education program in 1979-80, including the costs of special education charged to other programs.

The department acknowledges that "there may well be systematic problems with the documentation school districts use for allocating costs on a programmatic basis." It asserts, however, that these problems are probably not limited to the special education program, bringing the information on the cost of all programs "into question."

Second, the department noted that two legislative measures have reduced LEA's entitlements to reimbursement for support services. Consequently, whether the 1979-80 support services ratio accurately

reflects true support costs is no longer a relevant issue. The department argues that a district's local general fund contribution (LGFC) is positively correlated with its support services ratio (that is, districts making higher-than-average contributions from their general fund to special education also tend to have higher-than-average support services ratios) and because Ch 797/80 requires the LGFC to be treated as an offset to state aid, excessive support services payments are minimized.

In addition, the department asserts that Ch 1094/81 (SB 769) further weakened the relationship between a district's 1979-80 reported support costs and its support services entitlement. This is because the measure (a) limited indirect costs to 4 percent of direct instructional costs plus support costs, regardless of what was reported for 1979-80, and (b) capped support services ratios that were above the statewide average and squeezed them down toward the average. The department stated that "the combined effect of these actions has been to drastically reduce support services entitlements (almost \$70 million since 1980-81) and in many cases eliminate any relationship between current support services entitlements and the cost of special education programs reported...in 1979-80."

In summary, the department concludes that no specific action in response to the Controller's audit is warranted at this time because legislation has rendered meaningless any relationship between 1979-80 reported costs and support entitlements under current law.

3. Legislative Analyst's Findings. Our review supports the Department of Education's conclusion that legislation adopted since the

enactment of SB 1870 has weakened whatever relationship between a district's support services costs and its entitlement to state support that may have existed in the past. This, however, in no way detracts from the message that emerges from the Controller's audits: the support services costs reported by LEAs for 1979-80 do not provide a reliable basis for reimbursing districts' support services costs today. Rather than recompute these costs, we believe the Legislature should, instead, act to restructure the MPSE funding model. Any new proposal should employ data which more accurately reflect the real costs of providing special education. Such data should be based on uniform and well-tested accounting procedures that require adequate documentation of local school districts' support costs.

B. Local General Fund Contribution (LGFC)

Under the Master Plan for Special Education, each district's local general fund contribution (LGFC) to the program serves as an offset to its state aid entitlement. This means that, all else being equal, districts with a larger LGFC receive less in state aid than districts with a smaller LGFC.

A district's LGFC is equal to the amount contributed from its general fund in 1979-80 to support its special education program, exclusive of special transportation costs, nonpublic school tuition payments, pregnant minors program costs, and the costs of home or hospital instruction for pupils with temporary physical disabilities. Because funding for county offices of education is earmarked for specific county programs, they do not have a general fund, per se. Consequently, the MPSE funding mechanism does not recognize any LGFC by county offices.

There is some confusion among district administrators and some parent and teacher groups regarding the LGFC. In some cases, this confusion has hindered the ability of special education administrators to develop good working relationships with the school board and staff of the regular education program.

1. The LGFC is An Accounting Device. Some district staff believe that state law requires districts to redirect from the regular education program to the special education program each year an amount equal to the district's 1979-80 LGFC. This belief, however, is erroneous. State law does not require a transfer of funds; it merely assumes that the 1979-80 LGFC level is maintained each year and calls for a corresponding adjustment to each district's entitlement for state aid. If a district can fund its special education program without transferring money from its regular program, it need not redirect any funds. In other words, under the funding formulas, the LGFC is simply an accounting device that is used to calculate each district's entitlement to state aid.

2. The LGFC is Not "Encroachment." Many people assume that the LGFC and "encroachment" are one and the same--money redirected from the district's regular education program to special education. This, however, is not the case. As noted above, the LGFC is a theoretical concept which does not necessarily represent an actual transfer of funds. Encroachment, on the other hand, is the amount actually transferred from the regular program to fund special education in excess of local revenues identified in the special education formula (such as the revenue limit). If the state

fails to fund its full share of a district's special education entitlement, or if the costs of the district's special education program exceed the amount of its entitlements, the district will need to redirect more funds ("encroachment") to the special education program. The LGFC, however, would remain unchanged at the level of local expenditures for special education in 1979-80.

3. Findings. Tables 1, 2, 3, and 4 on pages 27, 28, 29, and 30 show the statewide cost of special education in 1981-82, 1982-83, 1983-84, and 1984-85, respectively. In 1981-82, the total LGFC for all districts was \$167.4 million, representing 13.5 percent of all revenues available for the special education program statewide. Because the LGFC is frozen at the 1981-82 level, it provides a declining percentage of total special education revenues over time.

Tables 5, 6, 7, and 8 show the range of LGFCs made by districts in seven different categories. For 1982-83, LGFCs per ADA ranged from 20 cents to \$296.96. While the average LGFC per ADA was \$49.30, 118 districts that received reimbursement for their special education programs reported no LGFC whatever.

Table 5

Special Education Program
Local General Fund Contribution
Dollars Per Average Daily Attendance^a
1981-82

<u>District Type</u>	<u>Mean</u>	<u>Median</u>	<u>Range</u>		<u>Frequency</u>
			<u>Lowest</u>	<u>Highest</u>	
Elementary, less than 100 ADA	65.18	35.57	10.77	256.29	10
Elementary, 100-900 ADA	42.01	33.88	0.58	312.64	144
Elementary, greater than 900 ADA	46.50	42.23	0.20	143.89	183
High School, less than 301 ADA	36.33	34.37	6.04	70.55	4
High School, greater than 300 ADA	39.12	34.84	7.35	135.43	78
Unified, less than 1,501 ADA	43.90	31.99	1.80	119.28	44
Unified, greater than 1,500 ADA	44.36	41.35	1.18	188.02	179
All districts	44.05	N/A	0.20	312.64	642

a. Excludes 118 LEAs with no local general fund contribution.

Table 6
 Special Education Program
 Local General Fund Contribution
 Dollars Per Average Daily Attendance^a
 1982-83

<u>District Type</u>	<u>Mean</u>	<u>Median</u>	<u>Range</u>		<u>Frequency</u>
			<u>Lowest</u>	<u>Highest</u>	
Elementary, less than 100 ADA	63.19	36.14	10.55	243.48	10
Elementary, 100-900 ADA	41.11	34.05	0.58	296.96	143
Elementary, greater than 900 ADA	45.55	39.83	0.20	127.73	185
High School, less than 301 ADA	33.50	35.22	0.24	70.55	5
High School, greater than 300 ADA	38.94	35.51	4.92	135.43	79
Unified, less than 1,501 ADA	42.88	27.24	1.63	129.67	44
Unified, greater than 1,500 ADA	43.84	40.72	1.65	187.95	180
All Districts	49.30	N/A	0.20	296.96	646

a. Excludes 118 LEAs with no local general fund contribution.

Table 7

Special Education Program
Local General Fund Contribution
Dollars Per Average Daily Attendance^a
1983-84

<u>District Type</u>	<u>Mean</u>	<u>Median</u>	<u>Range</u>		<u>Frequency</u>
			<u>Lowest</u>	<u>Highest</u>	
Elementary, less than 100 ADA	62.59	37.06	10.44	226.49	10
Elementary, 100-900 ADA	40.18	33.28	0.94	296.96	141
Elementary, greater than 900 ADA	44.14	38.78	0.20	126.43	185
High School, less than 301 ADA	33.49	35.22	0.19	70.55	5
High School, greater than 300 ADA	38.31	35.30	4.92	135.43	78
Unified, less than 1,501 ADA	42.34	29.35	1.43	126.91	45
Unified, greater than 1,500 ADA	43.71	40.47	1.58	187.95	180
All Districts	42.52	N/A	0.19	296.96	644

a. Excludes 119 LEAs with no local general fund contribution.

Table 8

Special Education Program
Local General Fund Contribution
Dollars Per Average Daily Attendance^a
1984-85

<u>District Type</u>	<u>Mean</u>	<u>Median</u>	<u>Range</u>		<u>Frequency</u>
			<u>Lowest</u>	<u>Highest</u>	
Elementary, less than 100 ADA	61.83	31.59	10.12	229.15	10
Elementary, 100-900 ADA	39.44	33.17	0.91	283.12	141
Elementary, greater than 900 ADA	43.71	38.78	0.19	123.98	185
High School, less than 301 ADA	33.49	35.22	0.19	70.55	5
High School, greater than 300 ADA	37.91	34.57	4.92	135.43	78
Unified, less than 1,501 ADA	42.34	29.82	1.35	133.37	45
Unified, greater than 1,500 ADA	43.23	39.27	1.52	187.95	180
All Districts	42.03	N/A	0.19	283.12	645

a. Excludes 119 LEAs with no local general fund contribution.

The tables suggest little, if any, relationship between district size, as measured by ADA and LGFC. While within each district type, districts with more ADA, on average, have a slightly higher LGFC per ADA than the smaller districts, no such relationship exists for all districts taken together. For example, the mean LGFC per ADA was highest for small elementary districts and lowest for small high school districts. The LGFC

per ADA for small unified districts (those with no more than 1,500 ADA) was \$42.88 in 1982-83, slightly less than the average for all elementary districts which tend to have smaller enrollments.

The Department of Education, in a publication entitled California Master Plan for Special Education, Fiscal Report for 1980-81, reported that it found no systematic relationship between the LGFC per pupil and six characteristics of LEAs: (1) base revenue limit, (2) size, as measured by ADA, (3) number of teachers, (4) teacher salaries, (5) district type (elementary, high school, and unified), and (6) district location (urban, suburban, and rural.) Nor was the department able to establish a statistically significant relationship between encroachment and these six characteristics.

Tables 5, 6, 7, and 8 also show that, among districts of the same type, the LGFC varies considerably. (Districts with no LGFC are not covered by the table.) Small high school districts show the least variability in LGFC, but it is important to note that only five districts fell into this category in 1982-83. Districts in the other categories show a range of at least \$120 per ADA.

In sum, the available data suggest that the districts' willingness to redirect funds from regular to special education in 1979-80 was determined primarily by local priorities, not by district characteristics. According to the 1980-81 SDE report on special education, there is no significant relationship between the LGFC and base revenue limits, the number of teachers, teacher salaries, district location, district size, or district type.

The LGFC Should Be Adjusted For Inflation. The LGFC is intended to encourage districts to maintain local support for special education at the level provided in 1979-80. A problem arises, however, in that while school district's special education funding entitlements are adjusted annually for inflation, no adjustment is made to the LGFC in order to reflect (1) the increase in funds available to the district, and (2) the decline in purchasing power of the LGFC. As a result, LGFC revenues fund an ever-smaller proportion of each district's entitlement over time.

Because the LGFC acts as an offset to state aid, the decreasing proportion of entitlements funded by the LGFC increases the state's costs. Furthermore, it provides a windfall to local school districts, since the districts receive cost-of-living increases to offset the effects of inflation on their costs even though the costs of the districts' LGFC is fixed.

Furthermore, the LGFC is not adjusted annually to reflect increases in school district enrollment. Under current law, if a district's general school enrollment declines below the 1979-80 level, its LGFC is reduced accordingly. However, if its ADA increases above the 1979-80 level, its LGFC is not increased, and instead remains fixed at the 1979-80 level. While school districts with rising ADA levels receive additional apportionment funds from the state, current law does not require these districts to budget any of the additional funds for special education, even though some of the additional students probably will be placed in special education. (The one exception is when additional students are placed in

special day classes, in which case the revenue limit funds generated by these students is used to offset districts' entitlements to state special education aid.)

Given that the Legislature has held funding for special education to be a joint local and state responsibility, the proportion of each district's funding going to support special education should be maintained over time. We therefore recommend: (1) that the LGFC be adjusted annually for inflation using the same percentage that is applied to school apportionment revenue limits in order to provide a COLA, and (2) that the LGFC be adjusted annually to reflect increases in ADA levels, excluding additional ADA generated by students placed in special day classes. We estimate that adjusting the LGFC for inflation would result in General Fund savings of approximately \$8 million annually. Unknown, additional savings also would ensue from adjusting the LGFC for increases in enrollment.

C. Service Proportions

Under the Master Plan funding model, school districts and county offices of education are eligible to receive state aid for their special education programs up to certain specified service levels, or service proportions, as defined in state law. Local education agencies that offer special education classes that cost more than the state funding limits must pay for these classes from local revenue sources. The Superintendent of Public Instruction, however, is authorized to waive the service proportions under certain circumstances (discussed in the next section).

Chapter 797, Statutes of 1980, authorizes sufficient state-funding of instructional personnel service units to serve 10 percent of the students enrolled in the special education local plan area (SELPA). This 10-percent funding cap is applied at the SELPA level, and applies to students served in nonpublic schools as well. Individual districts within the SELPA may exceed the 10-percent cap (or the three subcaps discussed below) provided the local plan specifies a higher service level in those districts, and calls for the additional students to be offset by lower service levels in others.

The specific service levels authorized by Ch 797/80 are as follows:

- The number of pupils served in special education programs cannot exceed 10 percent of total enrollment in grades K-12, inclusive.
- No more than 2.8 percent of the K-12 enrollment may be served in special day classes and centers (SDC).
- No more than 4.0 percent of the K-12 enrollment may be served in resource specialist programs (RSP).
- No more than 4.2 percent of the K-12 enrollment may be served in designated instruction and services (DIS).

The subcaps for the three instructional setting total 11 percent, even though the overall cap is 10 percent. This is intended to provide LEAs some flexibility in meeting the needs of the students in their jurisdictions.

1. Measures Limiting Special Education Growth. Soon after the Master Plan was implemented statewide, it became apparent to state

officials that, if nothing was done to reduce local entitlements, the program would incur a significant deficit. The deficit was projected at \$117 million for 1981-82. In response, the Legislature passed SB 769 (Ch 1094/81) which was intended to restrict state-funded enrollment growth in special education.

The measure required LEAs to meet two "tests" in order to be eligible for additional state-funded instructional units in 1981-82. First, school districts and county offices were required to fill existing classes up to the following enrollment levels:

- Special Day Classes--9 students.
- Resource Specialist Programs--22 students.
- Designated Instruction and Services--22 students.

This requirement was intended to ensure that districts fully utilized their existing special education classes before additional state-funded growth was authorized.

Second, the LEA had to fill each new class to specified minimum levels in order to qualify for any additional state support. These levels were:

- Special Day Classes--6 students.
- Resource Specialist Programs--16 students.
- Designated Instruction and Services--16 students.

Thus, LEAs received funding for special education growth only if both the existing and new classes met specific class utilization standards.

Moreover, Ch 1094/81 authorized only a limited amount of enrollment growth toward the 10-percent cap for 1981-82. Specifically, LEAs were authorized to increase state-funded special education enrollments by an amount equal to one-half of the difference between their existing special education enrollments (measured as a percentage of their total enrollments) and the 10-percent enrollment cap. Previously, districts were authorized to increase state-funded enrollment up to the 10-percent cap.

These restrictions on growth were rendered moot when the 1982 Budget Act was chaptered. This measure specified that LEAs would be eligible to receive funding in 1982-83 only for the number of instructional units that received state support in 1981-82. This limitation, however, did not prevent school districts and county offices from shifting instructional units from one setting to another or adding units to accommodate students previously placed in nonpublic schools, provided the transfer did not result in an increase in state costs.

The freeze imposed by the 1982 Budget Act was extended for one year by the 1983 Budget Act. The 1984 and 1985 Budget Acts provided \$10 million annually to fund additional instructional personnel service units in both 1984-85 and 1985-86.

2. Special Education Service Levels, 1981-82, 1982-83, 1983-84, and 1984-85. Table 9 displays the unduplicated count of special education pupils, by instructional setting, for 1981-82, 1982-83, 1983-84, and 1984-85. In reviewing these data, it should be kept in mind that no state funds were provided for special education enrollment growth in 1982-83 and

1983-84 even though K-12 enrollment, statewide, increased by 1.06 percent, from 4,046,156 to 4,089,017.

The table shows that in 1981-82, 365,338 pupils were enrolled in special education programs. Of this number, 108,919 pupils (30 percent) were enrolled in special day classes (SDCs), 134,217 pupils (37 percent) were enrolled in resource specialist programs (RSPs), 116,754 pupils (32 percent) were enrolled in designated instruction and services (DIS) programs, and 4,448 (1.2 percent) were enrolled in nonpublic schools (NPSs). In the following year, overall enrollment in special education fell one-half of 1 percent to 362,731, due to reductions in the DIS and NPS instructional settings. Enrollment increases in RSP and SDC partially offset these declines.

In 1983-84, special education enrollment reached 374,087, a 2.7 percent increase over the enrollment level in 1981-82. This increase occurred in spite of the fact that no state funds were provided for special education growth. The increase in special education enrollments since 1981-82 occurred primarily in the RSP programs and, to a lesser extent, in the SDCs. Placements in nonpublic schools and the DIS program have declined since 1981-82. (NPS and DIS enrollment levels increased slightly in 1984-85, probably because of the provision of \$10 million in special education expansion funds in that year.)

The data in Table 9 suggest that the freeze on state-funded special education instructional units in 1982-83 and 1983-84 has affected the distribution of students among the instructional settings as well as the

total number of students in the program. In particular, it has brought about a significant reduction in the number of students placed in nonpublic schools, reflecting the fact that NPS placements, on average, are more expensive than per-pupil costs in the districts special education program. These students presumably are placed in special day class programs. In order to accommodate students previously placed in nonpublic schools, the 1983 Budget Act authorized LEAs to increase the number of special education classes offered in their local programs.

Table 9

Special Education Program
Unduplicated Count of Pupils^a
1981-82, 1982-83, 1983-84, and 1984-85

<u>Instructional Setting</u>	<u>1981-82</u>		<u>1982-83</u>		<u>1983-84</u>		<u>1984-85</u>	
	<u>Number of Pupils</u>	<u>Percent of K-12 Enrollments</u>	<u>Number of Pupils</u>	<u>Percent of K-12 Enrollments</u>	<u>Number of Pupils</u>	<u>Percent of K-12 Enrollments</u>	<u>Number of Pupils</u>	<u>Percent of K-12 Enrollments</u>
Special Day Class (SDC)	108,919	2.69%	109,529	2.69%	115,363	2.82%	118,315	2.85%
Resource Specialist Program (RSP)	134,217	3.32	137,467	3.38	143,367	3.51	147,621	3.56
Designated Instruction and Services (DIS)	116,754	2.89	111,908	2.75	111,732	2.73	113,529	2.74
Nonpublic Schools (NPS)	<u>4,448</u>	<u>0.11</u>	<u>3,827</u>	<u>0.09</u>	<u>3,625</u>	<u>0.08</u>	<u>3,715</u>	<u>0.09</u>
Totals	364,338	9.00%	362,731	8.92%	374,087	9.14%	383,180	9.24%

a. April 1984 unduplicated pupil counts.

The data in Table 9 also suggest that students are being placed in RSP programs to a greater extent than in the other instructional settings. Special education administrators have indicated that, in order to serve new special education students, they have shifted resources from SDC to RSP. This is because RSP can have more students per class than SDCs. Otherwise, districts faced with significant ADA growth would not have been able to meet the needs of all the students identified as requiring special education services.

The data in Table 9 show a 4.3 percent reduction in DIS enrollment from 1981-82 to 1983-84, even though overall enrollment in special education has increased slightly. It is possible that some students that received services in DIS classes during 1981-82 may have been reassessed and found ineligible for these services in 1982-83 and 1983-84. Local assessment teams also may have applied more stringent criteria to determine special education eligibility for new district students.

Whatever the action taken by local program operators, the general effect of the freeze appears to have been to curtail enrollment growth in the special education program overall and to shift students out of nonpublic schools and into the districts' programs.

Tables 10, 11, 12, and 13 show the number of special education classes, or instructional units, operated by the districts in 1981-82, 1982-83, 1983-84, and 1984-85 respectively. The tables also show the number of units that received state funding and the statewide average class size for each instructional setting. The number of Instructional units

operated--that is, actually offered--exceeds the number of units funded because some districts and county offices operated units for which they did not receive state support. In most cases, classes not eligible for state support are operated outside of the service proportions discussed earlier in this section.

Table 10

Special Education Program
Instructional Units and Class Size
1981-82

<u>Instructional Setting</u>	<u>Instructional Units</u>			<u>Actual Average Class Size</u>	<u>SB 1870 Class Size Limits</u>
	<u>Funded</u>	<u>Not funded</u>	<u>Total Operated</u>		
Special Day Class	10,854	103	10,957	9.84	10
Resource Specialist Program	5,960	60	6,020	21.76	24
Designated Instruction and Services	<u>5,507</u>	<u>290</u>	<u>5,797</u>	<u>21.01</u>	<u>24</u>
Totals	22,321	453	22,774	N/A	N/A

Table 11

Special Education Program
Instructional Units and Class Size
1982-83

Instructional Setting	Instructional Units			Actual Average Funded	SB 1870 Class Size Limits
	Funded	Not Funded	Total Operated		
Special Day Class	10,850	79	10,929	9.82	10
Resource Specialist Program	6,064	38	6,102	22.09	24
Designated Instruction and Services	<u>5,485</u>	<u>185</u>	<u>5,670</u>	<u>20.82</u>	<u>24</u>
Totals	22,399	302	22,701	N/A	N/A

Table 12

Special Education Program
Instructional Units and Class Size
1983-84

Instructional Setting	Instructional Units			Actual Average Funded	SB 1870 Class Size Limits
	Funded	Not Funded	Total Operated		
Special Day Class	10,937	93	11,030	10.55	10
Resource Specialist Program	6,115	31	6,146	23.44	24
Designated Instruction and Services	<u>5,434</u>	<u>176</u>	<u>5,610</u>	<u>20.56</u>	<u>24</u>
Totals	22,486	300	22,786	N/A	N/A

Table 13

Special Education Program
Instructional Units and Class Size
1984-85

Instructional Setting	Instructional Units			Actual Average Funded	SB 1870 Class Size Limits
	Funded	Not Funded	Total Operated		
Special Day Class	11,100	125	11,225	10.66	10
Resource Specialist Program	6,280	36	6,316	23.51	24
Designated Instruction and Services	<u>5,338</u>	<u>175</u>	<u>5,513</u>	<u>21.27</u>	<u>24</u>
Totals	22,718	336	23,054	N/A	N/A

The tables show that:

- Special day classes (SDC) accounted for roughly one-half of the instructional units operated in each of the four years. On a statewide basis, these classes meet the class size average prescribed by Ch 797/80.
- The resource specialist program (RSP) accounts for 27 percent of the special education classes offered, while designated instruction and services (DIS) accounted for 25 percent.
- The average class size has increased in the SDC and RSP instructional settings and has remained constant in the DIS program.

It is important to note that these class size averages are based on an unduplicated count of special education students. Consequently, they understate the actual number of contacts a special education teacher may

have with students, particularly in the DIS program. This is because some students may in fact receive DIS services in conjunction with their SDC program. These students, however, would be counted as being enrolled only in the SDC program.

We note that in 1981-82, districts and county offices of education offered a total of 453 special education classes for which they received no state funding. This figure dropped to 302 in 1982-83. There were two reasons for the reduction in the number of unfunded classes.

First, LEAs operated 73 fewer special education classes in 1982-83 than they did in 1981-82. This reduction reflected a decrease in the number of DIS (127 classes) and SDC (28 classes) offerings, partially offset by increases in the number of RSP classes (82). Second, the state authorized an additional 104 RSP instructional units while eliminating 4 SDC units and 22 DIS units. Anticipating no additional state support for the master plan in 1982-83, district administrators reduced their special education offerings to match more closely the total funding available to the program.

LEAs continue to increase the number of RSP instructional units and reduce DIS units in 1983-84 and 1984-85. The total number of units operated in 1983-84 increased over the 1982-83 level to 22,786--roughly the number operated in 1981-82. The total number of units operated in 1984-85 reached 23,054.

D. Waivers

Under the Master Plan for Special Education, a special education local plan area (SELPA) may request the Superintendent of Public Instruction to grant a waiver from certain enrollment limits when compliance with the limits "would both prevent the provision of a free, appropriate public education and would create an undue hardship." Chapter 797, Statutes of 1980, specifies the following three conditions as potentially creating an undue hardship:

1. For special day classes: when the special education provider is so close to a state hospital or similar facility that the provider would be responsible for serving an unusually large number of children with exceptional needs.

2. For resource specialist programs and designated instruction and services: when the provider has implemented eligibility criteria adopted by the State Board of Education, and failure to grant the waiver would result in students receiving inappropriate services.

3. For the entire special education program: when low pupil density in sparsely populated areas creates transportation problems for the SELPA.

In addition, the Superintendent of Public Instruction may grant a waiver when the SELPA can show that the increased cost of exceeding the standard in one instructional setting will be offset by savings in another instructional setting.

Moreover, the Education Code authorizes the State Board of Education to waive any provision of the special education codes and regulations associated with the codes if a waiver is needed to implement a student's individualized education program or to comply with federal mandates.

Finally, SB 769 (Ch 1094/81) authorizes the Superintendent of Public Instruction to grant a waiver of the class utilization standards imposed by the act. Specifically, the Superintendent may grant waivers of the standards to those SELPAs with fewer than (a) 30,000 ADA and (b) 25 ADA per square mile. (AB 2557 (Ch 115/84) extended eligibility for these waivers also to all SELPAs with pupil density of 20 or fewer units of ADA per square mile). The waivers are valid for one to three years, depending on the action taken by the Superintendent. In addition, SELPAs with a large number of students residing in licensed children's institutions (LCI "impaction") may also obtain waivers from the SB 769 class size standards.

1. Waiver Findings. Waivers have been granted only in the 1981-82, 1984-85, and 1985-86 fiscal years. Both the 1982 and the 1983 Budget Acts provided no funds for special education growth; consequently, no waivers were granted during these years. In general, the instructional units funded in 1982-83 and 1983-84 were held at the 1981-82 level, although local educational agencies were authorized to change the mix of instructional units offered, provided the change did not result in a net increase in state costs.

Our analysis of data compiled by SDE indicates that in 1981-82, 37 SELPAs were granted a total of 293.70 additional instructional units

through the waiver process. However, 168.10 units were recaptured by the state, in accordance with provisions of Ch 797/80 which authorized waivers in cases where reductions in other instructional settings would result in a net state savings. Thus, the net increase in instructional units resulting from waivers for 1981-82 was 125.60. Table 14 displays the distribution of these additional units by instructional setting.

Table 14

Special Education Program
Instructional Personnel Service Units Authorized by Waivers
By Instructional Setting
1981-82

<u>Instructional Setting</u>	<u>Additional Units Granted</u>	<u>Units Recaptured</u>	<u>Net Change</u>
Special Day Class	63.70	132.53	-68.83
Resource Specialist Program	148.20	6.00	142.20
Designated Instruction and Services	<u>81.80</u>	<u>29.57</u>	<u>52.23</u>
Totals	293.70	168.10	125.60

Of the 37 SELPAs which were granted additional state-funded instructional units in 1981-82, 17 cited transportation problems associated with low population/density as justification for the waiver. Seven SELPAs requested a waiver of the SDC cap because of difficulties encountered in meeting the needs of students from nearby medical facilities, while 16 SELPAs sought the DIS/RSP waiver. Seventeen SELPAs were authorized state-funded instructional units in excess of the service proportions that were offset by reductions in other instructional settings. (SELPA may have

cited more than one reason for seeking a waiver.) In addition to the waivers reviewed by the Department of Education, the State Board granted waivers to three SELPAs to exceed various instructional setting caps.

Using the statewide average cost for each instructional setting and the statewide average support services ratio, we estimate that the total cost of waivers granted in 1981-82 was approximately \$4.8 million. We estimate that the additional instructional units granted under the low population/density waiver accounted for about \$3.3 million of the total, and that the instructional units granted through state board waivers totaled \$1.3 million. Waivers of the instructional setting subcaps which were offset by recaptured units accounted for the remaining \$200,000.

These figures are rough estimates, based on extrapolations of statewide average costs and SELPA-specific waivers. Because unit rates and support services ratios are unique to each district and county office of education and because waivers for instructional units are authorized at the SELPA level (districts and the county in combination), it is not possible to precisely determine costs. Moreover, often there was more than one reason why a waiver was granted. For example, a SELPA might exceed the cap for SDC units because of low population/density and might also trade RSP units for DIS units citing the no-cost provision as justification for the shift. The department's records do not allow us to determine the number of units waived under each waiver provision. Thus, the cost of waivers cited above are only estimates.

As mentioned previously, no waivers were granted in 1982-83 and 1983-84 because of the freeze on instructional personnel units. In 1984-85, the Legislature appropriated \$10 million to fund additional units; these units were only available to SELPAs, however, whose special education programs met the SB 769 class size standards. Furthermore, the Legislature enacted SB 1379 (Ch 268/84), which provided that all units, not just "growth" units, must meet certain class size standards. SELPAs, however, were allowed to obtain waivers from the class size standards, for both existing units and growth units, on the basis either of: (1) LCI-impaction or (2) low population density.

Our analysis of data compiled by SDE indicates that, in 1984-85, 11 SELPAs were granted waivers from class size standards on existing units. This resulted in the continued funding of 58.16 units that would have otherwise been recaptured by the state. We estimate that the cost to the state for continuing to fund these units in 1984-85 (and annually thereafter) was \$2.8 million per year. In addition, 12 SELPAs were granted 28.51 growth units through the waiver process, at an estimated annual cost to the state of \$1.5 million in 1984-85 and annually thereafter. The total cost of waivers granted in 1984-85 was therefore \$4.3 million. Approximately 60 percent of these costs was due to waivers for SELPAs containing large numbers of licensed children's institutions, and 40 percent of the total reflects waivers for low population density.

The SDE data also shows that funding authorization was withdrawn from 79.93 units because these units did not meet minimum class size

standards in 1984-85. If one takes these units into account, the net cost to the state for granting waivers in 1984-85 would only be \$80,000. The cost of granting waivers in 1984-85 therefore appears to have been offset, for the most part, by savings generated from recaptured units. (These offsetting savings were not realized, however, until 1985-86, since the Department of Education provided LEAs a one-year grace period before withdrawing funding from underutilized class units, in order to provide LEAs with sufficient time to release staff from their special education programs.)

E. Special Transportation

Chapter 797, Statutes of 1980, authorized school districts and county offices of education to receive state support for transportation costs incurred in order to serve students with exceptional needs. As noted earlier in this report, transportation costs are reimbursed based on the actual costs incurred in the prior year, with districts' entitlements equaling 80 percent of allowable costs and county offices' entitlements equaling 100 percent of allowable costs. Both districts and county offices, however, receive no state funding for costs exceeding 125 percent of the statewide average.

Funding deficits in special transportation prompted two amendments to the transportation funding provisions of Ch 797/80. Senate Bill 769 (Ch 1094/81), enacted in September 1981, prohibited districts from transferring their special transportation programs to the county office unless the transfer would either reduce entitlements to state aid or

reduced special transportation mileage by 25 percent. In the fall of 1982, the Legislature enacted SB 1345 (Ch 1201/82), which further amended the conditions under which LEAs could receive reimbursement for their special transportation programs. This measure limited the definition of "approved costs" by authorizing funding for costs associated with transporting only those students who, because of their handicap, cannot use other forms of transportation. The measure required districts and county offices to encourage mildly handicapped students to use the regular home-to-school bus service when appropriate.

1. Entitlements and State Aid. Table 15 displays the special transportation entitlements and state aid received by LEAs for 1980-81 through 1983-84.

Table 15
Special Education Program
Special Transportation
Entitlements and State Aid
1980-81 through 1983-84

<u>Transportation Funding</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
Entitlements	\$70,850,655	\$91,437,419	\$107,357,313	\$112,626,517
State aid	62,483,192 ^a	80,260,000 ^b	80,260,000	112,626,517 ^c
Deficit	-8,367,463	-11,177,419	-27,097,313	--
Deficit factor	12%	12%	25%	--

- a. Includes \$2.4 million deficiency appropriation.
b. Includes \$16.0 million deficiency appropriation.
c. Includes \$25.9 million deficiency appropriation.

Table 15 shows that, in three of the four years since 1980-81, the amount of state aid available for special transportation has fallen short of statewide entitlements. In 1980-81 and 1981-82, LEAs receive 88 cents

for every dollar of state transportation support to which they were entitled. In 1982-83, they received only 75 cents on the dollar. These shortfalls imposed a greater financial burden on districts than on county offices of education because the entitlement formulas limit districts' state aid to 80 percent of approved costs. Thus, in 1982-83, districts were reimbursed for only 60 percent (.75 times .80) of their special transportation costs in the previous year. The table also shows that transportation entitlements have grown significantly since 1980-81.

Table 16 shows the number of students that received special transportation services, as well as the per-student entitlements and state aid received, for the period 1980-81 through 1983-84.

Table 16
 Special Education Program
 Special Transportation
 Students Transported and Funding Levels
 1980-81 through 1983-84

	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
Students transported:				
Total	62,746	71,899	77,996	73,103
Districts	(43,619)	(51,090)	(52,718)	(46,100)
Counties	(19,127)	(20,809)	(25,278)	(27,003)
Average entitlements per student:				
Districts	\$932	\$1,040	\$1,041	\$1,262
Counties	\$1,578	\$1,841	\$2,076	\$2,017
Average aid received per student:				
Districts	\$822	\$913	\$776	\$1,262
Counties	\$1,392	\$1,616	\$1,558	\$2,017

In 1983-84, LEAs received special transportation reimbursements for serving 73,103 students. Roughly 63 percent of these students were served by districts; the remaining 37 percent were served by county offices. The table shows that, between 1980-81 and 1983-84, the total number of students served increased by 10,757 or 16.5 percent.

The table shows, however, that the number of students receiving special transportation services declined between 1982-83 and 1983-84. This decline may, in part, be the result of changes brought about by SB 1345

(discussed earlier), which encouraged local education agencies to transport handicapped students with their handicapped peers whenever feasible. The data also show that the number of students transported by districts declined between 1982-83 and 1983-84, while the number of students transported by county offices of education has increased since 1980-81. This also suggests that districts are transporting less severely handicapped students with nonhandicapped students. County offices of education, because they generally serve the more severely handicapped, have fewer opportunities to "mainstream" students in the transportation program and, therefore, appear to have been less able to reduce service levels in accordance with the provisions of SB 1345.

Between 1981-82 and 1982-83, the districts' average per-pupil entitlement for transportation funding remained virtually unchanged at \$1,041, while the counties' entitlement increased 12.8 percent, from \$1,841 to \$2,076. By 1983-84, however, entitlements per pupil for counties had registered a \$59 reduction, on average, while district entitlements increased \$221, to \$1,262 per pupil. We can identify no particular reason for this change other than the fact that the service level of districts declined between 1982-83 and 1983-84, thus resulting in a higher per-pupil entitlement for districts in 1983-84.

Finally, Table 16 shows that, for 1982-83, the amount of state aid actually received by districts averaged \$776 per student, while counties received \$1,558 per student. In both cases, the amount was equal to 75 percent of the LEAs entitlements. Measured on a per student basis, the

amount of transportation funding received by districts and counties fell 15.0 percent and 3.6 percent, respectively, from the 1981-82 level. In 1983-84, the transportation entitlements of districts and county offices of education were fully funded.

2. Senate Bill 813 (Ch 498/83). Senate Bill 813, the comprehensive school finance and reform measure adopted in July 1983, made significant changes in the special transportation program. Effective in 1984-85, SB 813 eliminated special transportation as a separate program and specified, instead, that special education students shall receive services through the regular Home-to-School Transportation program. The act also required districts and county offices of education to establish a transportation fund and to deposit into the fund "all transportation allowances received in any fiscal year" and any other revenues deemed appropriate. The amounts deposited in the transportation fund must be expended on approved transportation costs only.

By folding the special transportation program into the regular home-to-school program, SB 813 effectively prohibited local education agencies from receiving state reimbursement for transportation costs associated with student travel to and from sites where they received related services required by their IEPs. This is because the provisions then in effect which governed the Home-to-School Transportation program allowed reimbursement only for costs incurred for round-trip travel between home and school.

In addition, SB 813 provided that the transportation allowances received by each local education agency in 1983-84 would be the maximum amount of reimbursement that it would receive in subsequent years. As discussed earlier, the special transportation program incurred a \$27.1 million deficit in 1982-83. Because the state provided no funding to eliminate this deficit, a similar deficit for 1983-84 occurred. (The Legislature appropriated sufficient funds, however, to fully fund transportation in the 1984-85 fiscal year.)

3. The 1984 Budget Act and Assembly Bill 3073 (Chapter 267, Statutes of 1984). In enacting the 1984 Budget Act (Ch 258/84), the budget trailer bill (Ch 268/84), and the deficiency bill for 1983-84 (Ch 267/84), the Legislature addressed many of the problems created by SB 813.

Assembly Bill 3073 provided \$25 million to fund the 1983-84 deficit in special transportation, thereby eliminating the possibility that this deficit would carry forward into subsequent years. The Legislature furthermore appropriated \$27.1 million in the 1984-85 deficiency bill, eliminating the possibility that the deficit incurred in 1982-83 would also be carried forward.

The concern that special education students requiring nonhome-to-school transportation services would be denied these services was also addressed in 1984. The 1984 and 1985 Budget Acts, as well as AB 2557 (Ch 115/84), specified that "transportation" shall include transportation to and from sites providing related services, as long as these services are required by the students' IEPs.

CHAPTER V
CONCLUSION

The Master Plan for Special Education has gone through numerous changes since its inception in 1974. The initial legislation which authorized the MPSE as a pilot program and subsequent legislation which authorized its statewide implementation established the principles which would shape the service delivery model.

The funding model for the MPSE, as it exists today, was established by SB 1870. This measure specified that districts will be reimbursed for their special education costs, based on the level of expenditures in 1979-80, adjusted for inflation and current-year service levels. Most of the changes in the program enacted since then have sought to reduce the burgeoning cost of the MPSE. Specifically, SB 769 and SB 1345 reduced state costs by amending the funding formulas and by slowing enrollment growth in the program. The Budget Acts of 1982 and 1983 more effectively contained the cost of the program by placing a cap on the level of support to which districts would be entitled. In fact, 1984-85 was the first year in which districts will be eligible to receive additional state support for special education growth since 1981-82.

Because of the "freeze" on state-funded special education enrollment growth, the issues discussed in this report generally showed very little change over the course of our review. Problems regarding the full utilization of existing special education classes and the uniform

application of standards for allocating state aid for growth in the program were brought to light during this review. These problems, however, were addressed in the 1984 Budget Act and the accompanying trailer bill and therefore recommendations regarding these issues are not included in this report. Other issues regarding the special transportation program were also addressed in the 1984 and 1985 Budget Acts.