

Special Education Expenditures and Funding

First in a Series of Reports on
Special Education

Independent Analysis Unit
Los Angeles Unified School District

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About this Report

In response to a request from the Board of Education, The Independent Analysis Unit (IAU) is conducting a multi-part study of special education in L.A. Unified. Over a series of reports, the IAU will analyze special education expenditures and funding, outcomes for students with disabilities who receive special education services, and the relationship between expenditures, funding, and student outcomes.

This report provides an overview of special education expenditures and funding over five years and has as its main focus average per-pupil spending. The research reported here does not focus on dispute resolution expenditures, but the IAU will investigate this type of expenditure over the course of our study of special education in L.A. Unified. Our next report will build upon this report to further understand drivers of special education expenditures, analyzing costs by disability type and services provided. In later reports, the IAU will also analyze the relationship between costs and academic outcomes for students with disabilities.

The views expressed herein are those of the Independent Analysis Unit and do not necessarily reflect those of the District, the Board of Education, or any individual Board Member.

More information about the IAU, including past studies, can be found at laschoolboard.org/iau. Please direct any questions about this report to glenn.daley@lausd.net.

EXECUTIVE SUMMARY

All local education agencies are required by federal law to provide special education services to students identified as needing services through an Individualized Education Program (IEP).¹ However, the combined federal and state funding provided to Los Angeles Unified School District through its Special Education Local Planning Area (SELPA) is inadequate considering the expenditures² to service the roughly 72,346 students with disabilities (SWDs) enrolled in the District (as of FY 2019).³ In 2018, federal funding comprised approximately 10% of total special education funding. With 24% of special education funding supplied by the state, the District's general fund covered the remaining unfunded amount (66% of total funding). The focus of this report is to provide insight into the District's funding and expenditures on special education and the impact on average per-pupil spending. Several observations emerged from the analysis of special education funding and expenditures:

The District is spending more than it receives on special education. In FY 2017, total special education funding (federal and state) was \$517.2 and total special education expenditures were \$1.5B, resulting in a funding gap of close to \$1B. This funding gap is equivalent to an average of \$13,447 per SWD.

The District covers the special education funding gap with transfers from general education funds. The special education underfunded amount averaged over all students, not just students with disabilities, comes to \$1,913 per student.

Our estimates of the average special education expenditures per student range from two to over four times the average per student general education expenditures. The population of student with disabilities includes many students with minimal disabilities costing less than the average per SWD expenditure, and a smaller number of students with severe disabilities costing multiple times more than the average. The group of students with minimal disabilities incur general education expenditures as do all students without disabilities, but the District also incurs costs for their special education services. Students with severe disabilities do not incur general education costs; their costs are high and outside of general education expenditures. We estimate that the average per high-cost SWD expenditure is at least \$30,780 and likely closer to \$55,000. This is between 2 and 4 times as much as expenditures for students without disabilities.

Average general education expenditures per student are lower than might be apparent from District budget documents. By isolating special education expenditures from the rest of the budget, the **average general education expenditures per student are lower than might be apparent** from budget documents. This average expenditure per student is lower than the overall per student expenditure that is sometimes used to argue that the District is underfunded. Such a lower overall average makes that argument even stronger.

Further, **for planning purposes, especially school-site budgeting with per-pupil funding, the District-wide overall average per student is neither accurate nor useful**, because it averages special education dollars across all students, whether special education or not. Those special education dollars should be excluded from discussions of the impact of per-pupil funding. They are so variable—across students, across schools, and across years—that they should not be averaged for most decision-making.

¹ Hill, L., Warren, P., Ugo, I., & Pathak, A. (2016). Special Education Finance in Education (pp. 1–34). Public Policy Institute of California.

² The terms expenditures and costs are used interchangeably in this document.

³ LAUSD Superintendent's Budget, 2018-2019.

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1. INTRODUCTION

In response to a request from the Board of Education, this report is the first deliverable of a multi-part analysis of special education expenditures and funding in L.A. Unified. This report provides an overview of special education expenditures and funding over five years (Fiscal years (FY) 2013-2017),¹ and has as its focus average per-pupil spending.

The most recent special education data available from the California Department of Education (CDE) is FY 2017. The Independent Analysis Unit (IAU) used District financial data to correspond with this year. For this initial report, we examined estimated actual revenues and expenditures from FY 2013-FY 2017. In any given year, estimated actual data for the prior year are included the District Superintendent's Final Budgets; therefore, we used the FY 2014-FY 2018 budget documents to obtain funding and expenditure items for the years included in this report.² Special education expenditure data were taken from CDE Unaudited Annual Financial Data for FY 2013-FY 2017. In order to provide more recent per-pupil average information, we obtained estimated special education expenditures for FY 2019 from District Budget Services and used FY 2019 estimated actual expenditure data (from the FY 2020 District Superintendent's Final Budget).

An important point to keep in mind is that *needs* of students with disabilities drive special education spending. The state, however, does *not* fund districts based on the needs of students with disabilities. Funding for special education services is based on a formula using average daily attendance (ADA) of all students, regardless of disability status. Funding is obtained from three sources: federal support through the Individuals with Disabilities Education Act (IDEA), state

support through California Assembly Bill (AB) 602, and any remaining unfunded portion is covered through local discretionary funds. While local educational agencies (LEAs) are required by law to provide special education services to students with disabilities (SWDs), since the law is not based on actual services delivered, it does not provide for increased funding if special education enrollment increases, nor if the proportion of SWD increases relative to ADA.

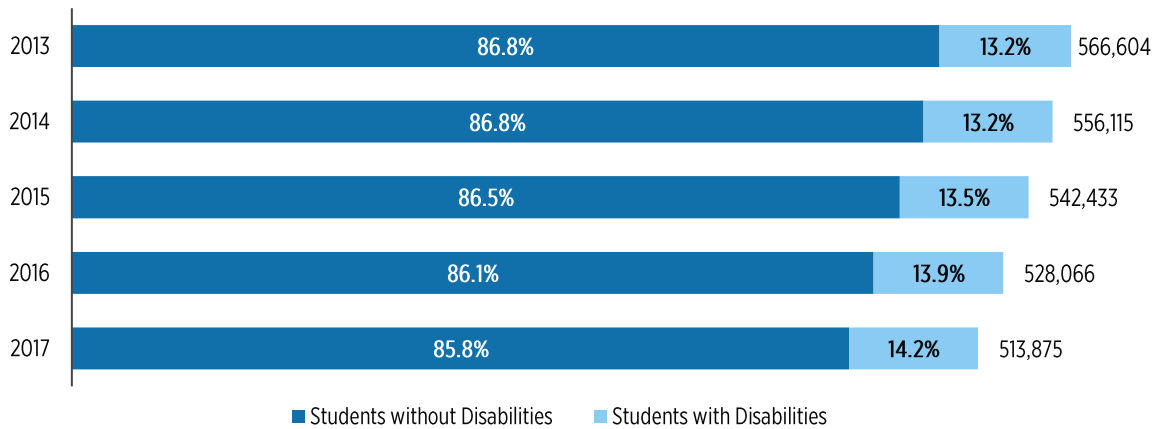
As Figure 1 shows, total enrollment has declined in L.A. Unified over the 5 years studied. Meanwhile, the share of students with disabilities in the population of students has increased. Consequently, L.A. Unified has increased transfers (sometimes referred to as contributions) from its general fund to provide for special education services over this period.

The remainder of this report is organized into four sections. Sections 1 and 2 outline special education expenditures and funding,

History of Special Education Funding in California

Prior to the passing of AB602, California special education funding was based on the special education expenditures of LEAs. In 1979, under funding model J-50, districts reported their special education costs via a statewide survey, which set the funding rate for each Special Education Local Planning Area (SELPA). Consequently, funding to LEAs varied widely throughout the state. In the years following the 1980 survey, the state did not update the cost survey and funding rates became outdated by the mid-1980s. Nonetheless, the funding rates based on the 1979 rates continued until the state converted to AB602 in 1998. New funding rates under AB602 were based in part on funding rates that were in place the final year of J-50. Accordingly, variations among SELPAs based on their self-reported funding rates carried over to AB602. In an effort to eliminate the funding gaps between SELPAS that were established by J-50, two rounds of equalization funds were allocated, yet they did not succeed in eliminating the funding gaps. These gaps between SELPAS based on historical data reporting form the basis of special education funding in California to this day.

Figure 1. Annual K-12 Special Education Enrollment versus Total Enrollment, FY 2013- FY 2017



Source: Superintendent’s Final Budget FY 2014-FY 2018.
 Note: Enrollment is exclusive of independent charter schools.

respectively. In section 3, we present an analysis of average per-pupil expenditures that illustrates challenges in using overall averages. Finally, the IAU offers observations and recommendations for the Board.

2. SPECIAL EDUCATION EXPENDITURES

This section outlines District spending associated with special education. We find that District spending on the highest expense category, people who serve students directly, has been growing over time and will likely continue to do so.

By law, states must provide a free appropriate public education in the least restrictive environment to children with disabilities. The Individuals with Disabilities Education Act (IDEA) governs how schools determine their students’ special needs. Administrators, pupil services, staff members, and teachers at each school form a team to write Individualized Education Plans (IEPs) for each student with special needs. These plans include the academic, developmental, and functional needs

of the child and the services required to meet these needs. **These required services drive the cost of providing special education.**

Spending for services provided to students with disabilities can be divided into six categories, as described in Table 1. We aggregated expenditures associated with these categories for the five years analyzed in this

Table 1. Special Education Expenditure Categories³

Category	Description
People who serve students directly	Salaries and benefits to teachers and other professionals
Administrators	Salaries and benefits to clerical, technical, office staff, and supervisors and administrators
Transportation	Transportation for SWDs
Non-public schools and agencies	Professional and consulting services and operating expenditures
Charter pass through	Other tuition, excess expenditures, and/or deficit payments to district or charter schools
Other non-salary	Materials and supplies, travel, food, rentals, communications, dues, equipment, housekeeping

Note: Categories were formulated using a combination of codes from the CDE’s Standardized Account Code Structure (SACS).

report, depicted in Figure 2. The Board is interested in investigating dispute resolution costs associated with special education expenditures; a later study will address this topic in detail.

As shown in Figure 2, most of the District’s spending is on people who serve students directly. The District’s expenditures in this category has consistently increased at a sharper rate than other expenditure categories that remained relatively flat over the time period. Annual expenditures for people who serve students directly in FY 2017 was approximately \$1.1 billion dollars, a 21% increase since FY 2013. For detailed expenditure information please see the Appendix.

Figure 2 also shows the relative size of expenditures in the five categories. Notice how the District appears to devote a relatively low

proportion of special education spending to administrative expenses; about 3% per year. It would be incorrect, however, to draw the conclusion from this that administration of special education is more efficient than administration in the District overall.

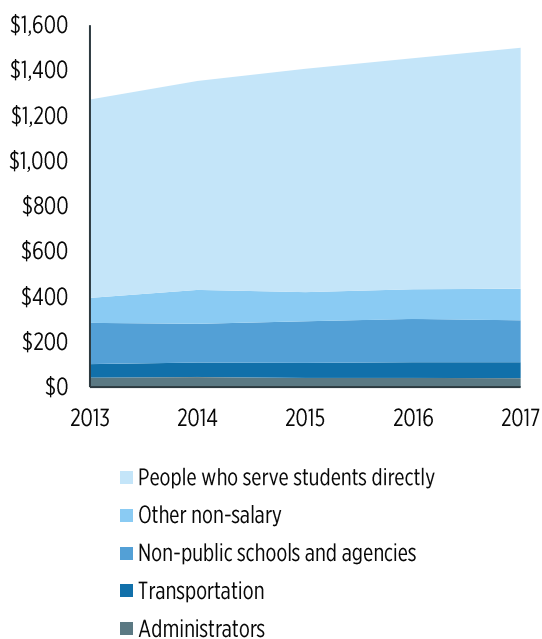
The low amount in this spending category is a result of the way in which expenses are coded and not a reflection of real conditions. The special education administration category shown in Figure 2 does not include the school leaders who have substantial responsibility for all education at their schools, including providing appropriate education to students with disabilities. The administrator spending category in this analysis includes only a subset of administrative expenditures exclusive to special education.

3. SPECIAL EDUCATION FUNDING

In this section, we discuss how the District funds special education. The analysis provided in this section makes very clear what District leaders already know: providing special education according to the federal mandate costs considerably more than what the federal and state governments provide for it. Special education was underfunded to the tune of close to \$1B in FY 2017. This came to roughly twice the special education funding total and 14% of the general fund revenue.

The term *special education funding* refers to the revenue provided to LEAs for expenditures associated with services to students with disabilities. The District receives funding expressly for special education from both the federal and state governments and it also contributes unrestricted money from the general fund for the purpose of paying for special education (Table 2).

Figure 2. K-12 Annual Special Education Expenditures by Category (in millions), FY 2013-FY 2017



Source: CDE Unaudited Annual Financial Data, FY 2013-FY 2017.
 Note: Charter School pass through not figured due to comparatively small dollar amount.

Table 2. Special Education Funding Summary

Source	Directive	Description
Federal	IDEA	Complex formula involves specific populations, up to 40% of funding possible but never provided
State	AB602	Based on overall ADA, not enrollment of SWDs
District	-	General fund transfers to meet the unfunded amount of special education services

IDEA governs how the federal government aids LEAs on the condition that they offer free specially designed instruction to every eligible student. Though Federal law requires the District to spend whatever is necessary to meet the educational needs of individual students, it provides limited financial assistance to help with the cost of providing appropriate public education and related services. The statute sets the maximum amount of this assistance at 40% of the average per-pupil expenditure. However, since the law’s enactment in 1975, California has never received an amount close to 40% of its expenditures on special education services.

Although full funding of IDEA would provide 40% of the special education budget, in FY 2017 only 10% of funding came from IDEA. The federal government allocates funds to states using a complex formula that involves the population of children with disabilities, the population of children ages 3-21, and the percent of children living in poverty. States are then required to allocate IDEA funds to districts and LEAs using a similar formula, though the sources of data used in the state-to-district allocation vary state to state.⁴

The CDE monitors federal distributions to ensure that funds are being used to *supplement and not supplant* state and local funds⁵. In other words, funding for special education

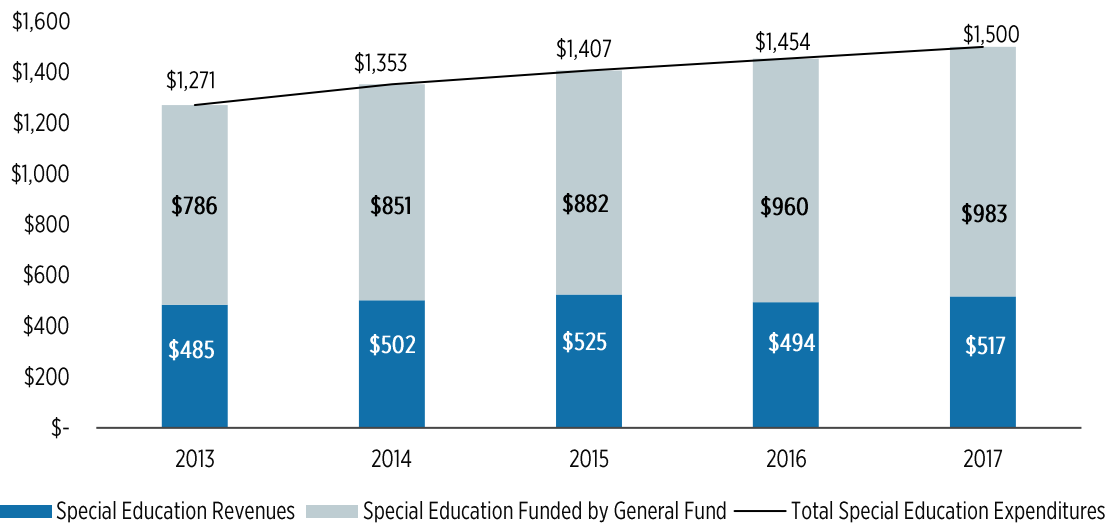
is not meant to cover the entire cost of education.

The remainder of the funding for special education comes from state and local sources. At the state level, the California Assembly Bill (AB) 602 dictates how LEAs receive special education funding. AB 602 uses a rate applied to the ADA⁶ of all students rather than the enrollment of students with disabilities. This funding structure was put in place to deter districts from over-identifying students as having disabilities. However, since funding rules do not account for the actual distribution of students with disabilities in a district, greater funding is not provided to districts with higher proportions of students with disabilities. It also does not provide additional funding when the ratio of SWD to total ADA increases.

If the District were fully funded per IDEA, then local funding would be reduced to 36% from 66%, almost half the underfunded amount. To illustrate this point, Figure 3 shows the increase in the District’s spending compared to the relatively flat funding for special education. This growth in expenses and flattening of funding has pushed up the local share of special education funding over the past five years, from 62% to roughly 66% of the total special education expenditure. Furthermore, as disabilities are identified earlier and the prevalence of children diagnosed with developmental disabilities grows, special education enrollment as a share of total enrollment may continue to increase over the next 10 years.⁷ Consequently, the underfunded amount—and the need for increased general fund contributions—should be expected to increase.

These projected increases in special education needs will be accompanied by a projected decline in overall enrollment at L.A. Unified; the ratio of SWD enrollment to

Figure 3. Special Education Funding and Underfunded Amount (in millions), FY 2013-FY 2017



Source: Superintendent's Final Budget, FY 2014 - FY 2018, CDE Unaudited Annual Financial Data, FY 2013 - FY 2017.
Note: Estimated actual data for any particular year is found in the following budget year.

overall enrollment is projected to continue to increase. Additionally, the labor cost for special education services is expected to increase. Consequently, without increases in funding either to the general fund or through IDEA funding, the District will face lower funding for all students regardless of disability status.

4. EXPENDITURES PER PUPIL: THREE METHODS

We often hear that California is 41st in education funding and that state spending per pupil is woefully inadequate.⁸ Our analysis reveals that in fact, for most students, District spending per pupil is *even lower*. Adjusting for its spending on students with disabilities, the District spends less to educate students without disabilities (the majority of students) than the average per-pupil expenditure suggests.

This is because averages are sensitive to

outliers, very large numbers that are outside the range of most other values. Averages take every data value into account, so very large values can change the average drastically.

Using this reasoning, because an overall District average per-pupil expenditure spreads all costs evenly across all students and does not differentiate between costs by student group (though they vary widely), this average is misleading. The District per-pupil average is artificially inflated by the high expenditures the District makes on a relatively small number of students. In this section, we offer alternative methods to obtain a more accurate estimate of how much the District spends on its students by student group. The methods involve different approaches to calculating a per-pupil average by changing the organization of expenditures and enrollment by student group.

The first method, the simplest, assumes all students participate in the general education program regardless of membership in student group. One average per-pupil

expenditure is calculated over all students (enrolled in grades K-12). This method results in the average per-pupil expenditure often cited throughout the District: \$16,561 in 2020.

The second method also assumes all students participate in the general education program but acknowledges that students with disabilities receive additional services to meet their special needs. We calculate per-pupil average expenditures for two groups: students without disabilities and students with disabilities.

While method 2 acknowledges that costs differ for students by disability status, method 3 further recognizes that costs among students with disabilities differ according to varying levels of service need; some students have high-service needs and most have low-service needs (explained in more detail below). This method allows for the distinction between students with disabilities with low-

service needs who participate in the general education program and students with disabilities with high-service needs who do not participate in the general education program. The per-pupil average calculation includes three groups: students without disabilities, low-service SWDs, and high-service SWDs.

The **distinction in service level among students with disabilities** in method 3 allows for **the best estimate of the true per-pupil expenditure** for all District students.

In the remainder of this section, we outline each method’s assumptions and approach in greater detail. This analysis is based on FY 2019 estimated actual data and enrollment taken from the 2019-2020 Superintendent’s Budget and FY 2019 special education expenditure data provided by District Budget Services.

Figure 4. Summary of Expenditure and Students Groups by Method

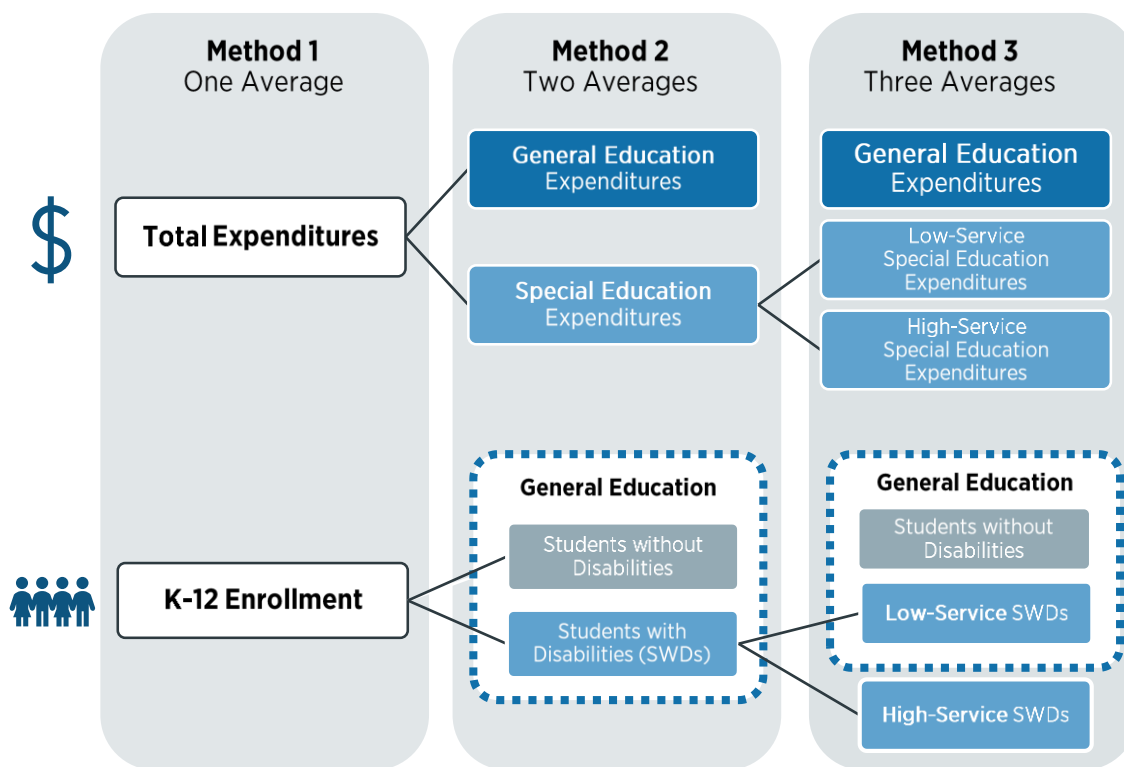


Figure 4 summarizes how we categorize expenditures and enrollment in each method. We begin with total expenditures (method 1). We then separate expenditures for special education from general education expenditures (method 2). Finally, we further disaggregate special education expenditures and enrollment by level of service (high/low) (method 3) groups. Figure 4 also summarizes how we separate enrollment of students by group in each method.

Method 1: One Average

Conventional wisdom tells us that to obtain the average per-pupil expenditure we should divide total expenditures by total K-12 enrollment. Using this method, we calculate one average expenditure per pupil.

We make two assumptions in method 1:

- All students participate in the general education program, and
- All District expenditures are distributed equally across all students.

As shown in Figure 5, in FY 2019, the result of that calculation was \$15,367. Because not all students receive the same educational services, calculating the per-pupil average expenditure under this method is flawed. Higher spending on a subset of students (those with disabilities) raises the average per-pupil expenditure for all students. This

makes the average per-pupil expenditure appear higher than the actual amount the District spends to educate most students (those without disabilities). Similarly, if a billionaire lived in a low-income community, the average income for that neighborhood would be substantially higher than the average income for most people who live there.

The assumption that expenditures are equally distributed over all students regardless of disability status leads to an artificially high District per-pupil average.

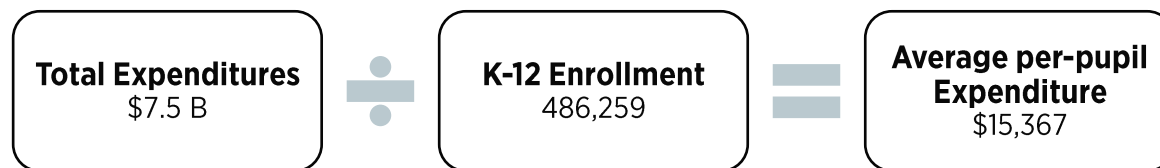
Method 2: Two Averages

The second method acknowledges that the District expends more to educate students with disabilities than their peers without disabilities because students with disabilities have special needs that require additional or different services. In this method, we calculate two per-pupil averages: one each for students with and without disabilities.

In method 2, we expand the assumptions used in method 1 to include the following:

- All students participate in the general education program, regardless of disability
- General education expenditures are equally distributed over all students (with or without disabilities)
- Special education expenditures are distributed equally over all students with

Figure 5. Method 1: One Average – All Students in Grades K-12, FY 2019



Source: LAUSD Superintendent’s Final Budget, FY 2020.

Note: The FY 2020 budget includes FY 2019 estimated actual amounts. Enrollment based on Norm Day Enrollment excluding independent charter schools. This enrollment figure includes K-12 students but not early childhood or adult education students.

disabilities, ignoring the wide range in spending on different levels of services within the special education program

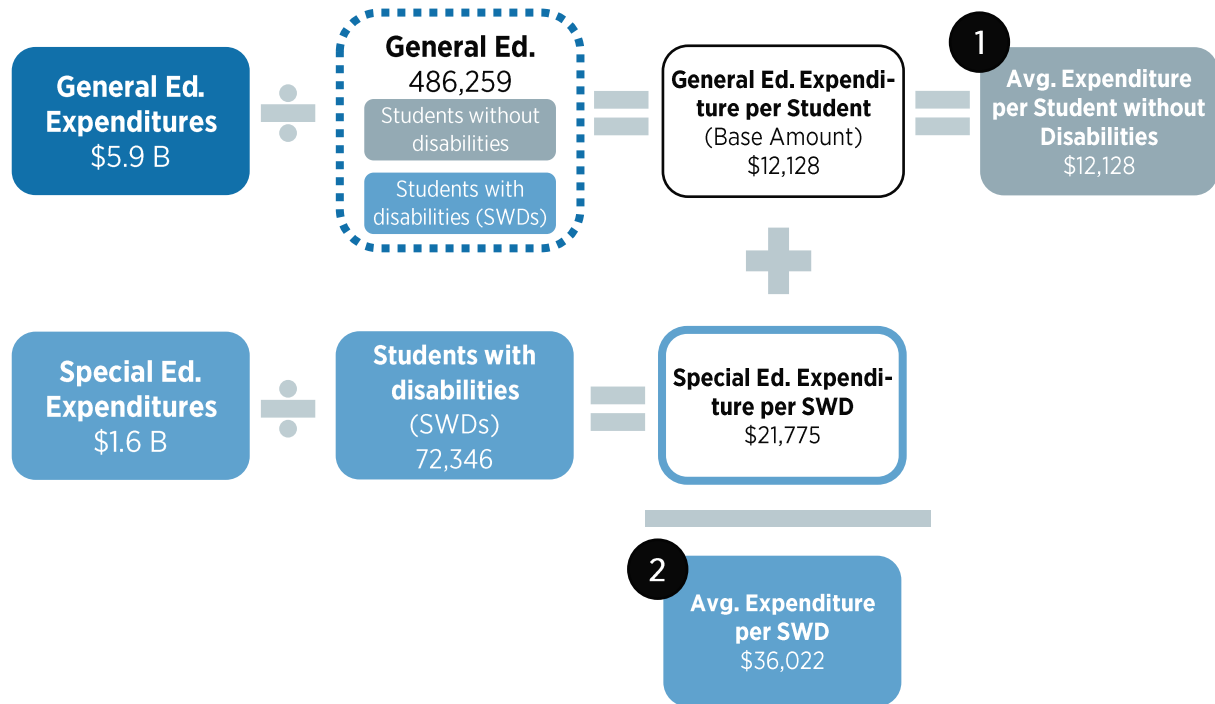
Figure 6 illustrates our approach in Method 2. We first distinguish special education expenditures from all other expenditures, which we call general education expenditures (see the call-out box for more detail). Next, we calculated the general education expenditure per student to be \$12,128—we call this the *general education base cost*. We then calculated the special education expenditure per student. Because students without disabilities only participate in the general education program, the general education base cost (\$12,128) represents their average per-pupil expenditure. Because we assume all students with disabilities participate in the general education program *and* receive special education services, we obtain the average per-pupil

expenditure for students with disabilities of \$33,902 by summing two values: the average special education expenditure per SWD (\$21,775) and the general education base cost (\$12,128).

Comparing the average per-pupil expenditure for students without disabilities found in this approach to the one found under method 1, we see that it is 17% lower using method 2. This exemplifies the idea that by including the higher expenditures for students with disabilities, the average per-pupil expenditure for most students (those without disabilities) is much higher than commonly thought (method 1).

However, while method 2 improves upon method 1 by disaggregating general education and special education expenditures, the method is flawed for two reasons. First, the

Figure 6. Method 2: Two Averages — Students Without Disabilities (1) and Students with Disabilities (2), FY 2019



Source: LAUSD Superintendent's Budget, FY 2020; FY 2019 Special Education expenditure data provided by District Budget Services.
 Note: Data for general education expenditures and enrollment numbers come from the 2019-2020 LAUSD Superintendent's Final Budget.
 FY 2019 Expenditures for students with disabilities provided by L.A. Unified Budget Services.

Defining General Education Expenditures

The 2018 IAU informative entitled "[Per Student Revenues and Expenditures](#)" examined funding and expenditures on a per-student basis. Funding flows and expenditures were separated according to the student population groups they were attributed to, such as students with disabilities for special education funds, low-income students for Title I, and so forth.

Funds not designated for specific student groups were allocated across all students as a baseline average for all students. The present report uses the same approach, except that all funds other than special education are simply aggregated together as *general education expenditures* (also referred to as *general education funds*) and averaged across all students to give the *general education base cost*. Doing so simplifies the complex funding system of other major categories of students and allows us to focus tightly on special education.⁹

average per-pupil expenditure for students with disabilities in this method is misleading; it is artificially high because within the

population of students with disabilities there are disparities in needs (and therefore costs). Second, this method relies upon the assumption that all students participate in the general education program (which also artificially inflates the per-pupil average for SWDs). In reality, not all students with disabilities participate in the general education program; some do not accrue the general education expenditures in addition to the SWD expenditures.

Method 3: Three Averages

In method 3, we acknowledge the variability in costs among students with disabilities. Expenditures for some students with disabilities are very high while spending on other students with disabilities is minimally more than what the District spends on students without disabilities.

All students who have an IEP are eligible for special education services, and the levels of

services varies by student. Some students with disabilities are placed in programs that provide environments for high levels of services, such as special day programs where severe disabilities may preclude students from participating in general education programs most of the day. Special education services for these students are intensive in terms of number of services and adult-to-student ratio. Consequently, expenditures are high. We refer to this group as high-service SWDs (Figure 7).

Other students with disabilities may be placed in programs where they spend most of their day in a general education environment. For instance, the resource specialist program provides a specialized teacher to students with special education needs either directly or collaboratively with a general education classroom teacher. We refer to these students as *low-service SWDs*. Low-service SWDs receive far fewer services, consequently expenditures for this group of students cost an amount in excess of the general education base cost, but far less than high-service SWDs (Figure 7).

To categorize students with disabilities into high/low-service groups we used projected enrollment data from the 2019-2020 District Superintendent's Final Budget. Students who attend special day classes in regular and special education schools as well as students who attend non-public schools were counted as high-service students with disabilities, totaling 25,590 students. The total number of low-service SWDs was found by subtracting the number of high-service SWDs from the total SWD enrollment number, resulting in 46,756 low-service students with disabilities.

While method 2 assumed that spending for all students with disabilities included the general education base cost plus an excess

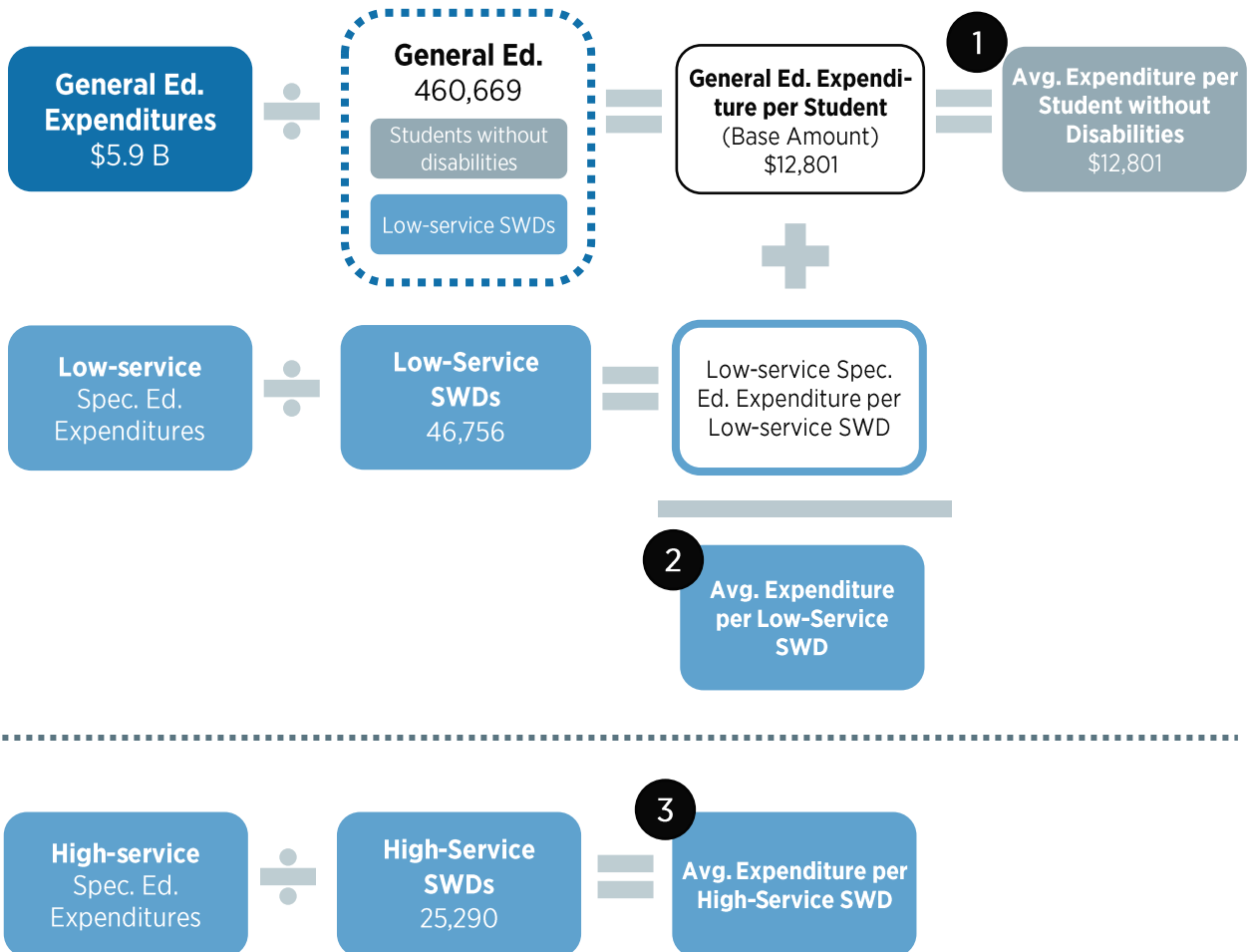
cost of their special education services, **the following assumptions are made for method 3:**

- Expenditures are split between high-service and low-service SWDs, with a higher amount of expenditures spent on high-service SWDs than low-service SWDs
- Expenditures for low-service SWDs include the general education base cost (because they are placed in general education classes) and a portion of the special education service expenditures.

- Expenditures for high-service SWDs do not include the base general education expenditure; their expenditures are singly categorized as special education.

This more complex Level 3 model gets closer to describing how the District actually spends money on students in various groups, but it is difficult to calculate. This is because tracking expenditures for students with disabilities by group (high- and low-service SWD) is not straightforward as, generally

Figure 7. Method 3: Three Averages – Students Without Disabilities (1), Low-Service SWDs (2) and High-Service SWDs (3), FY 2019



Source: LAUSD Superintendent’s Final Budget, FY 2020; FY 2019 Special Education expenditure data provided by LAUSD Budget Services.
 Note: High-service SWDs are those whose expenditures are uniquely categorized as special education; low-service SWDs are those whose District expenditures include the general education base cost plus the costs for the few special education services they receive. For this reason, the enrollment number for students without disabilities does not include high-service SWDs.

Table 3. Average Per Pupil Sensitivity Analysis, FY 2019

Ratio of High/Low-Service SWD Expenditures	Low-service SWDs (N = 46,756)			High-service SWDs (N = 25,590)
	General Ed. Base Cost	Services	Total	
75/25	\$12,801	\$8,423	\$21,224	\$46,170
85/15	\$12,801	\$5,054	\$17,855	\$52,326
90/10	\$12,801	\$3,369	\$16,170	\$55,404

Source: 2019-2020 LAUSD Superintendent's Budget, FY 2019 Special Education expenditure data provided by LAUSD Budget Services.

Note: High-service SWDs are those whose expenditures are uniquely categorized as special education; low-service SWDs are those whose District expenditures include the general education base cost plus the costs for the few special education services they receive. All students without disabilities (N = 460,669) receive the general education base cost of \$12,801.

speaking, the District accounts for expenditures in terms of employees and services rather than placements or programs.

To deal with expense categorization difficulties, we conducted a sensitivity analysis that assumed varying proportions of expenditures by special education group. In other words, in lieu of knowing the actual expenditures by student by disability group (high-service or low-service), we split the overall special education expenditures using hypothetical ratios of high-service SWD to low-service SWD expenditures. Table 3 summarizes three scenarios with ratios (high-service to low-service) of 75/25, 85/15, and 90/10.

We derived an average per-pupil expenditure for students without disabilities by dividing the general education expenditures by the total number of both students without disabilities and low-service SWDs. We included low-service SWDs in this group because under this method they were assumed to attend the general education program. Therefore, the cost for the general education program was evenly distributed over those two groups of students. The average per student without disabilities was found to be \$12,801.

Since low-service SWDs spend most of their time attending the general education program, the average per-pupil expenditure for students without disabilities (\$12,801) was

added to the per-pupil average expenditure for low-service SWDs. To calculate the average per-pupil expenditure for high-service SWDs, the high-service expenditure amount was divided by the number of high-service SWDs. No additional cost was added to this group as we assumed they do not partake in the general education program. The final per-pupil averages are shown in Table 3.

To find the per-pupil averages for the two SWD groups, we separated the total expenditure for each group (by scenario) using the three hypothetical ratios. For instance, in the 75/25 ratio scenario, we apportioned 75% of the total special education expenditure to the high-service SWD group and 25% of the low-service SWD group. We then calculated the per-pupil averages for each SWD group by dividing the corresponding calculated expenditure amount by the number of students in each SWD group.

Method 2 and 3 demonstrate that removing the expenditures associated with the population of high-service SWDs, who only represent 5% of the total District enrollment (35% of all SWDs), makes a large impact on the general education per-pupil average expenditure. The inclusion of high-service SWD expenditures had the effect of making it seem as if the overall per-pupil average was much higher than reality. We reason that to have such a great effect on the overall average per-

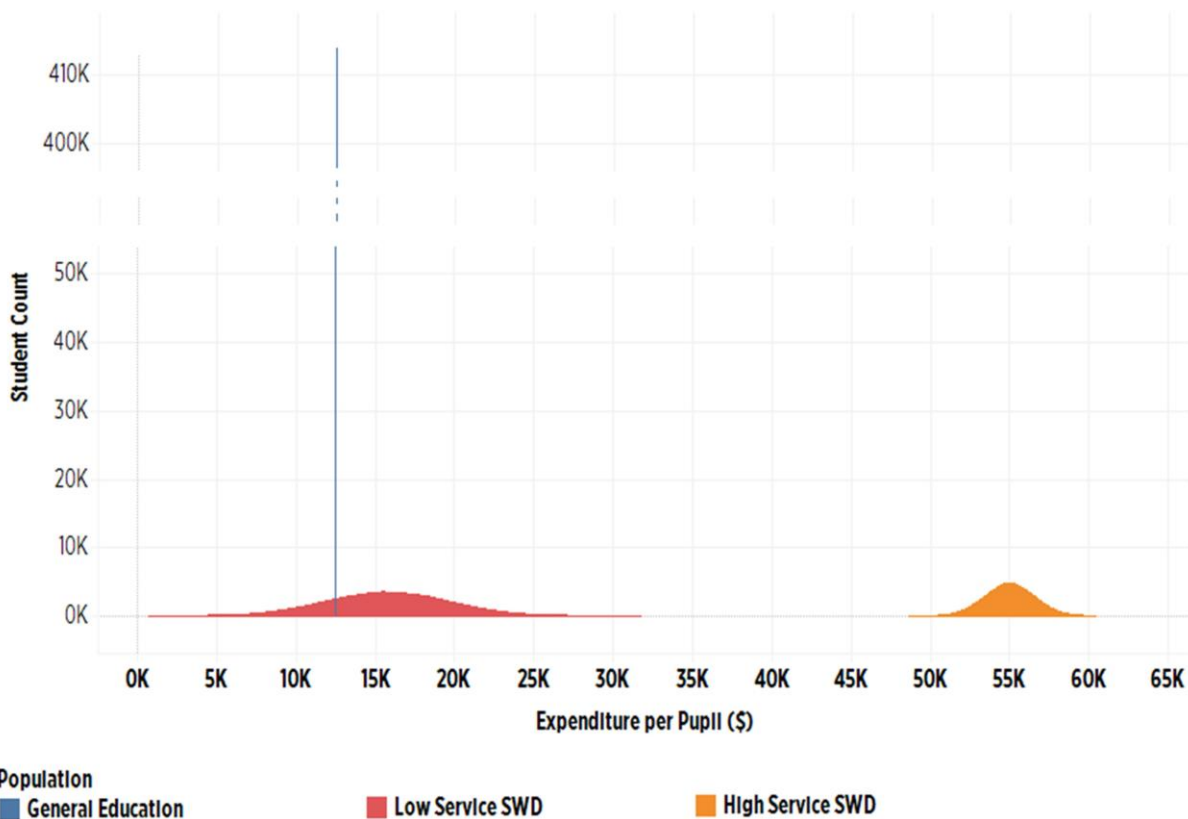
pupil expenditure, averages found in the 90/10 split between high- and low-service SWD expenditures is likely close to the actual averages.

To further test this assertion, and to provide a visual illustration of the per-pupil averages, we conducted a simulation of expenditures for the District’s K-12 population of students (486,258). We randomly generated costs per pupil by student group (general education, high-service SWD, low-service SWD). We generated 72,346 random values under the 90/10 split between high- and low-service SWD expenditures. Each random variable was drawn from one of two normal distributions, one representing the high-service SWD expenditures and one representing the low-

service SWD expenditures. The remaining 413,914 values representing the population of students without disabilities were set to a constant average expenditure value of \$12,801.

We plotted the resulting distributions, shown in Figure 8. In the figure, the tall bar represents the single cost of \$12,801 for students without disabilities. The distribution of average expenditures of low-service SWDs is seen clustered around the \$12,801 bar, showing the relatively similar cost amount between the two groups (low-service SWDs and students without disabilities). Conversely, the averages for the high-service SWDs are far to the right of the low-service SWD and the students without disability per-pupil averages.

Figure 8. Simulated District Expenditures by Student Group, FY 2019



Note: High-service SWD is assumed to be normally distributed with a mean of \$55,404 and standard deviation of \$1,539. Low-service SWD is assumed to be normally distributed with a mean of \$16,170 and a standard deviation of \$3,958. The distribution of students without disabilities is a constant per-pupil average expenditure of \$12,801.

The high variability among spending per student group shows that referring to per-pupil averages in terms of one value is misleading as it masks the fact that expenditures for most students are much less than the expenditures for high-service SWDs.

5. DISCUSSION

1. **Average per-pupil expenditures for high-service SWDs range from two to four times higher than average per-pupil expenditures for students without disabilities.**

Each SWD has a unique IEP and therefore a unique set of expenditures. The population of SWDs includes many students with minimal disabilities costing less than the average per SWD expenditure, and a smaller number of students with severe disabilities costing multiple times more than the average. For example, a small number of students with severe disabilities attend non-public schools; they accrue costs that are even higher than most students in the high-service category. A later IAU report is planned to examine this point in more detail. Due to the way the District accounts for expenditures, there is no straightforward way to account for service expenditures between these two groups of students. Our estimates of the per-pupil average expenditure for high-service SWDs range from a low of \$30,780 to a high of roughly \$55,000 (a multiplier of 2 to 4 times that of the per-pupil average expenditure for students without disabilities).

2. Although the purpose of this analysis was to examine special education expenditures, we see by isolating them from the rest of the budget that **average general education expenditures per student are lower than might be apparent** from budget documents. This average expenditure per student is lower than the overall per student expenditure

number that is sometimes used to argue that the District is underfunded. This lower overall average makes that argument even stronger.

3. **The District spends more than it receives on special education.** In other words, special education is underfunded. In FY 2017, total special education funding was 501.3M and total special education expenditures were \$1.5B, a shortfall of \$998.7M. This shortfall is equivalent to an average of \$13,665 per SWD.

4. **Special education underfunding is being covered by general education funds.** This is implied by points 3 and 4, above, and it confirms what District leaders already know as well as the analysis shown in Section 2 of this report. It provides another way to understand the numbers. If the special education underfunded amount is averaged over all students, not just students with disabilities, it comes to \$1,912 per student. Since this shortfall affects all students, an additional \$1,900 per District student for special education would benefit all students.

6. RECOMMENDATIONS

1. **For planning purposes, especially school-site budgeting with per-pupil funding, the District-wide overall average per student (\$16,561 in 2020) is neither accurate nor useful,** because it averages special education dollars across all students, whether special education or not. Those special education dollars should be excluded from discussions of the impact of per-pupil funding. Moreover, the expenditures are so variable--across students, across schools, and across years--that they should not be averaged for most decision-making.

2. To better estimate the per-pupil averages, **improved ability to detail expenditures for**

special education by service is needed. While accounting for expenditures utilizes a coding system that is necessary for budgetary purposes, the accounting system does not lend itself well to analysis of expenditures at the student level. Special education expenditures are driven by services. Thus, to obtain an accurate average per-pupil expenditure, the District should consider ways to code costs to services received by special education students.

The best way to plan for school-site expenditures is to use the District expenditure amount *without* additional special education dollars. Of course, this is simply a starting point for further analysis; it does *not* reflect the importance and allocation of other supplemental and concentration funds, and the distribution of students in various groups with various educational needs across the District.

None of the above discussion should be interpreted as saying that students with disabilities are somehow causing the District funding shortfall. These students are District students just as much as any other students, and the District provides them with individualized education options based on need in accordance with the law and the District's values. Any shortfall is on the funding side, such that the District does not receive from state and federal sources enough public funds to fulfill its public responsibilities to all students.

The IAU is engaged in building upon the analysis presented in this report to breakdown average costs for different categories of disability. The IAU is also currently studying student outcomes by disability category.

NOTES

¹ The time horizon selected for this analysis spans from FY 2013 to FY 2017. Each year on or before October 15th, California general education code requires expenditures for the preceding fiscal year to be filed with the state. At the time of this report FY 2017 was the most current filing.

² The District's unaudited actual annual financial report submitted to the CDE was used to enumerate special education expenditures. This unaudited actual financial data is submitted to the state by all LEAs in California and utilizes the Standard Accounting Codes Structure (SACS) adopted by the state.

³ SACS coding was developed in 1997 and includes an account coding structure as well as a financial reporting software. The result is a database containing financial data for all county offices, school districts, and charter schools in California. Data is submitted year-end and can be obtained publicly on the CDE website. SACS represents a coding system for every expenditure made and funding received by an LEA. SACS employs codes that identify resources (activities that are either a revenue or expenditure), goals (a grouping code that identifies spending for a specific population), functions (services to meet a particular objective) and objects (types of activities or services). Using the SACS coding system, we identified expenditures for services to SWDs by first restricting all expenditures to just those coded as a Special Education resource or goal. Next, for only the special education expenditures, we created expenditure categories based on function codes and

object codes. Each service or activity was assigned to a category and the total expenditures by category was derived by enumerating all services mapped to a category by year.

⁴ For more information on IDEA funding, see the Congressional Research Service report "The Individuals with Disabilities Education Act (IDEA) Funding: A Primer" (<https://fas.org/sgp/crs/misc/R44624.pdf>).

⁵ Aguinaldo, L., Fry, D., Garcia, B., Heckler, D., Metcalf, J., Miyashiro, R., ... McKay Underwood, M. (2019). School funding and accountability in California. School Services of California.

⁶ While enrollment is established by counting the number of students enrolled school on a given day in October (Norm Day), ADA is the days of student attendance divided by the total number of days in the school year.

⁷ <https://www.bls.gov/ooh/education-training-and-library/special-education-teachers.htm#tab-6>;

<https://www.cdc.gov/nchs/data/databriefs/db291.pdf>

⁸ California includes special education funding in its calculation for overall student expenditures, it is unclear how other districts in the nation derive their expenditure per student averages.

⁹ Ignoring other categories of need for this analysis is justified because (a) the other major categories of need such as low-income students or English Learners represent a much larger number of District students than does special education, and (b) special education represents a much larger amount of money on a per-student basis than the other funding streams.

APPENDIX

Table A1. Special Education Spending Summary – Expenditures and Percent Growth in Expenditures from Prior Year by Category, FY 2013-FY 2017

Expenditure Type	2013	2014	% Growth	2015	% Growth	2016	% Growth	2017	% Growth
People who serve students directly	876,875,541	924,404,331	5.4%	987,311,934	6.8%	1,021,532,461	3.5%	1,065,312,332	4.3%
Administrators	42,226,535	44,139,464	4.5%	39,882,150	-9.6%	41,200,953	3.3%	39,569,838	-4.0%
Transportation	59,624,661	64,388,255	8.0%	66,747,770	3.7%	68,684,446	2.9%	69,921,546	1.8%
Non-public schools and agencies	181,441,754	171,392,151	-5.5%	184,651,077	7.7%	191,657,975	3.8%	185,406,012	-3.3%
Other non-salary	110,899,955	149,063,965	34.4%	128,504,512	-13.8%	130,780,378	1.8%	139,783,764	6.9%
Total	1,271,068,447	1,353,388,166		1,407,097,443		1,453,856,214		1,499,993,491	

Source: CDE Unaudited Annual Financial Data, FY 2013 - FY 2017.

Note: Special education pre-school and infant expenditures were not included to coincide with enrollment numbers.