

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST
1390 Market Street, Suite 1150, San Francisco, CA 94102
PHONE (415) 552-9292 FAX (415) 252-0461

Policy Analysis Report

To: Supervisor Hillary Ronen
From: Budget and Legislative Analyst's Office
Re: Special Education Finances and Trends at San Francisco Unified School District
Date: March 16, 2022



Summary of Requested Action

You requested that our office conduct an analysis of special education finance in the San Francisco Unified School District including: federal, state, and local funding and fiscal policy over time; state efforts to enhance special education funding; key special education cost drivers; comparison to circumstances in other comparable school districts; and options for enhancing state and federal special education funding.

For further information about this report, contact Fred Brousseau, Director of Policy Analysis at the Budget and Legislative Analyst's Office.

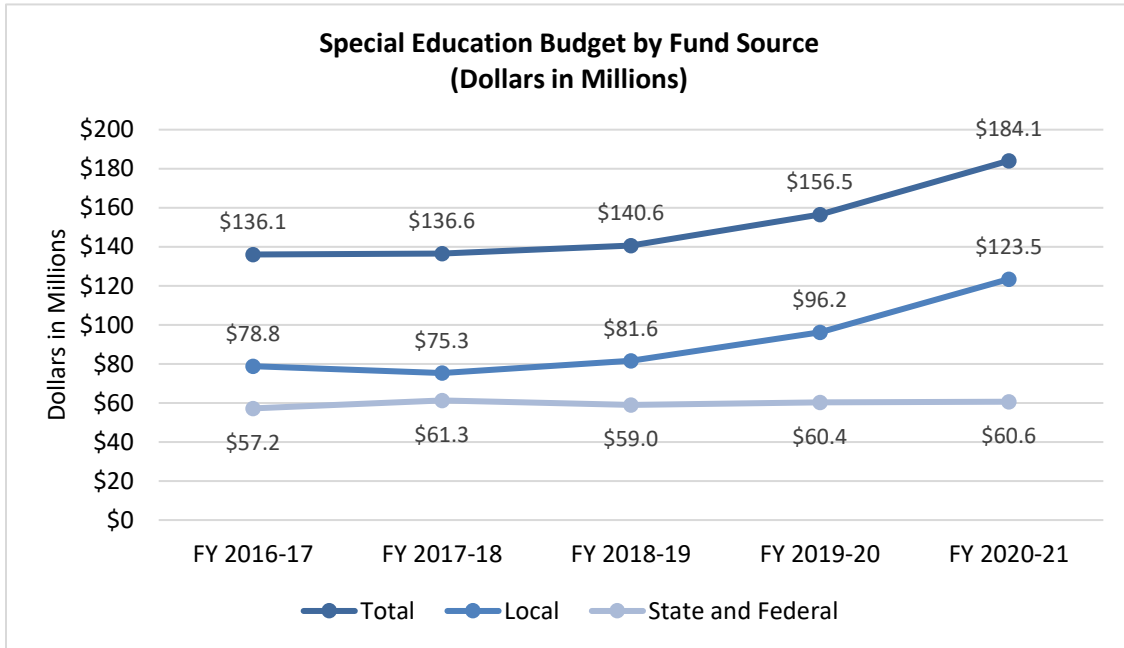
Executive Summary

- The federal government guarantees a “free appropriate public education” to all children with disabilities through the Individuals with Disabilities Education Act of 1975 (IDEA). In California, special education is funded by a combination of federal, state, and local sources. Federal and state funding however has not kept up with the costs of legally mandated and guaranteed services in many districts throughout the state, including San Francisco Unified School District (SFUSD, or the District).
- SFUSD’s special education budget increased by 35 percent from \$136.1 million to \$184.1 million between FYs 2016-17 and 2020-21. However, State and federal special education funding increased by only six percent during that time.
- Since federal and state funding has not kept up with legally mandated special education costs, the District has increasingly turned to its Unrestricted General Fund to cover the difference. SFUSD covered approximately two-thirds of its special education costs from its Unrestricted General Fund in FY 2020-21, an increase of 57 percent compared to its contribution in FY 2016-17.

Budget and Legislative Analyst

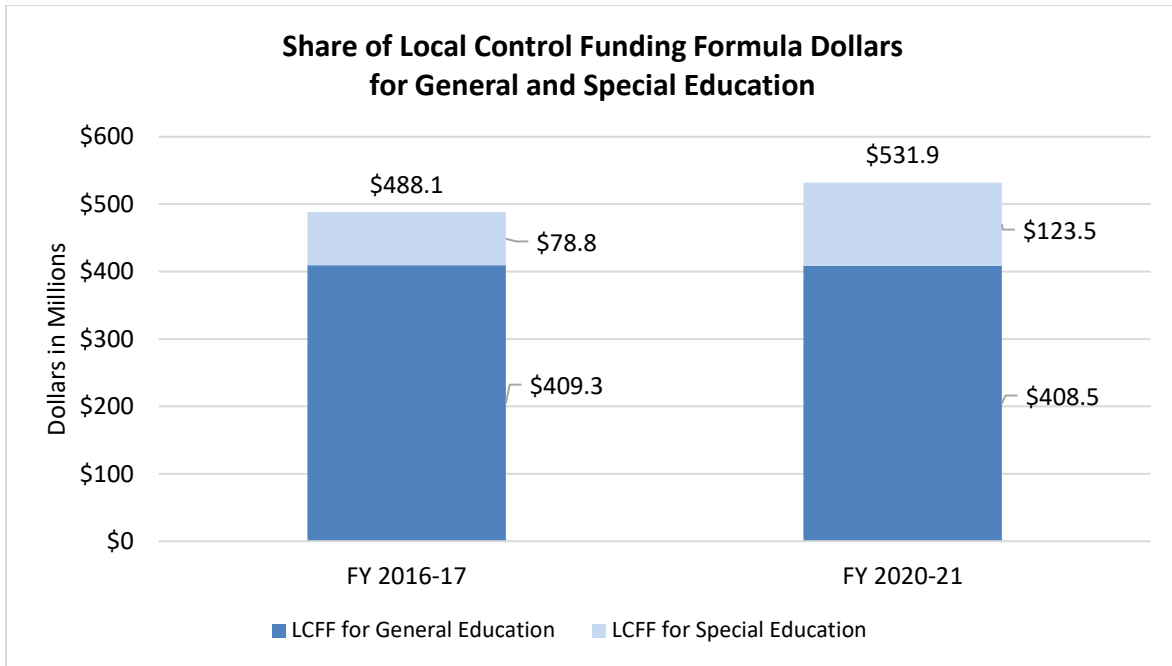
- Exhibit A shows the increase in special education costs and the relative contributions and growth of local and State and federal funding sources.

Exhibit A: Unrestricted General Fund Increasingly Covers District’s Special Education Budget as State and Federal Sources have Remained Flat



- The primary source of the District’s Unrestricted General Fund is State funding known as the Local Control Funding Formula (LCFF). In addition to special education, LCFF is the primary source of funding for the District’s general education services. However, because of the increased use of LCFF funds for legally mandated special education in recent years, the amount of LCFF funding available for general education has remained stagnant. Exhibit B shows there has been no growth in LCFF funding available for general education compared to an increase of \$44.7 million, a 57 percent increase, in LCFF funding allocated to legally mandated special education.

**Exhibit B: Share of LCFF Supporting Special Education Budget Grew by 57 Percent
while Amount Available for General Education Fell Slightly
FY 2016-17 – FY 2020-21**



- The number of students with disabilities in San Francisco grew by 15 percent in recent years, from 7,010 students in FY 2016-17 to 8,061 students in FY 2019-20. The number of students diagnosed with autism has grown by 51 percent over this same time period, comprising a greater share of the total number of students with disabilities. Students with autism typically require relatively costly intensive support from paraprofessionals, speech pathologists, occupational therapists, and adaptive physical education specialists, among other specialists.
- When Congress adopted predecessor legislation to the Individuals with Disabilities Act in 1975, it determined that the federal government would pay up to 40 percent of the excess cost of special education services, then estimated to be approximately double the cost of general education services. However, the 40 percent commitment has never been fulfilled. Had the federal 40 percent aspiration been actualized, we estimate that the District would have received approximately \$36.7 million more in special education funds in FY 2018-19, as shown in Exhibit C.

Exhibit C: Impact of Federal Funding at 40 Percent of National Average Per-Pupil Expenditures, FY 2018-19

	Amount
Total federal funding at 40% of District costs	\$50,166,286
Actual federal funding FY 2018-19	\$13,455,638
Additional federal funding if 40% District costs	\$36,710,648

Source: San Francisco Unified School District data; calculations by BLA based on assumed increase of \$3.2 billion to State of California, estimated by the California Legislative Analyst's Office, of which 1.2 percent would be awarded to SFUSD, its current share of state funding.

- State funding for District special education increased by only 11 percent between FY 2016-17 and 2020-21, well below the 57 percent increase in the District's Unrestricted General Fund monies allocated to special education during that period. The Governor has proposed a \$500 million increase in statewide funding for special education for FY 2022-23. We estimate that this would result in an additional \$5.3 million in State funding for the District on top of the \$39.3 million State funding allocation to the District in FY 2020-21, for a total of \$44.6 million. If the total increase in funding proposed by the Governor were doubled to \$1 billion statewide, we estimate the District's State funding allocation would be increased by \$10.5 million for a total of \$49.8 million. Such increases in State funding would result in a corresponding decrease in the District's use of its Unrestricted General Fund for special education.
- The increased dependence on Unrestricted General Fund to meet legally mandated special education costs is not limited to SFUSD. We reviewed the situation in other districts in California and found similar results, with increased costs being met with a greater contribution from local funds rather than federal and state monies. Exhibit D presents the results for six select districts and SFUSD.

**Exhibit D: Federal and State Funds Are Not Keeping Up with California School Districts’
 Special Education Cost Growth (Dollars in Millions)**

	FY 2016-17	FY 2019-20	% Change
Long Beach Unified			
Federal & State	\$59.3	\$60.5	2%
Local	218.7	239.2	9%
Total	278.0	299.7	8%
Los Angeles Unified			
Federal & State	556.8	550.8	-1%
Local	1,840.5	2,089.8	14%
Total	2,397.3	2,640.6	10%
Oakland Unified			
Federal & State	36.9	37.9	3%
Local	90.1	129.3	43%
Total	127.1	167.2	32%
Sacramento City Unified			
Federal & State	35.0	38.4	10%
Local	120.5	140.2	16%
Total	155.5	178.6	15%
San Diego Unified			
Federal & State	97.9	101.9	4%
Local	407.9	432.6	6%
Total	505.8	534.5	6%
San Jose Unified			
Federal & State	14.4	13.7	-5%
Local	79.5	94.4	19%
Total	93.9	108.2	15%
San Francisco Unified			
<i>Federal & State</i>	<i>57.2</i>	<i>60.4</i>	<i>6%</i>
<i>Local</i>	<i>78.8</i>	<i>96.2</i>	<i>22%</i>
Total	136.1	156.5	15%

Project Staff: Fred Brousseau, Rashi Kesarwani

Table of Contents

Summary of Requested Action	1
Executive Summary	1
Table of Contents	6
Background on Special Education	7
Special Education Finance	10
Special Education Costs in Other Districts	23

Background on Special Education

Federal Individuals with Disabilities Education Act Establishes Process for Identifying and Serving Children with Disabilities

The federal Individual with Disabilities Act (IDEA), enacted in 1975, guarantees a “free appropriate public education,” providing specially designed instruction at no cost to the parents that meets the needs of a child with a disability. Most of the IDEA funding is provided through its Part B, which guarantees a free appropriate public education for children and youth with disabilities from age three to 21, with requirements specified below.¹

- 1. Typical Classroom Setting.** Federal law requires that children with disabilities be educated in the “least restrictive environment,” which is a mainstream classroom for the majority of California students with disabilities.²
- 2. Learning Evaluation.** Either a parent or a public agency may initiate a request for an initial evaluation to determine if a child is a person with a disability and to determine the educational needs of the child.³
- 3. Individual Education Program (IEP).** An IEP is a written statement for each child with a disability that includes:
 - A statement of the child’s present levels of academic achievement and functional performance;
 - A statement of measurable annual goals, including academic and functional goals; and,
 - A statement of the special education and related services to be provided to the child, among other requirements.⁴

IDEA established formulas to provide funding to states and local education agencies for special education for children with disabilities, consistent with the principles above. Details on IDEA funding received by the San Francisco Unified School District (SFUSD) are provided below.

¹ The Individuals with Disabilities Education Act (IDEA) Funding: A Primer, Updated Aug. 29, 2019, Congressional Research Service, <https://sgp.fas.org/crs/misc/R44624.pdf>

² Overview of Special Education in California, California Legislative Analyst’s Office, Nov. 6, 2019, <https://lao.ca.gov/Publications/Report/4110>

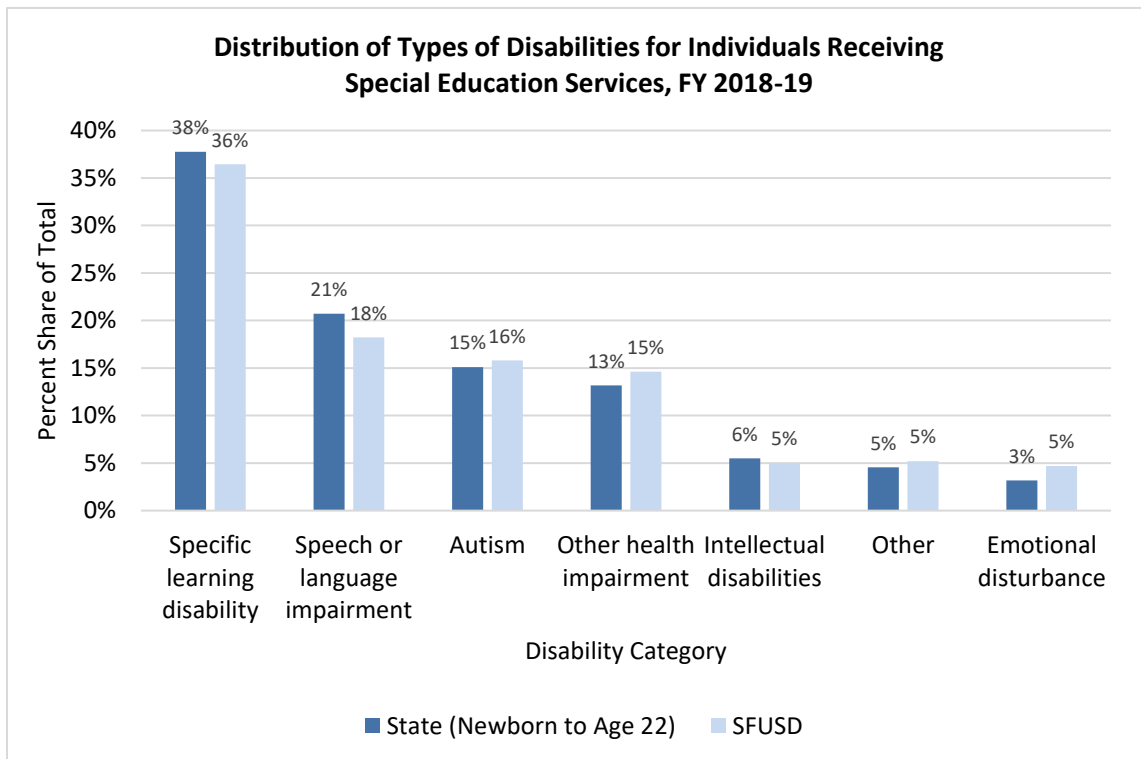
³ IDEA Part B, Subpart D – Evaluations, Eligibility Determinations, Individualized Education Programs, and Educational Placements, Sec. 300.301 Initial evaluations, <https://sites.ed.gov/idea/regs/b/d/300.301>

⁴ IDEA Part B, Subpart D - Evaluations, Eligibility Determinations, Individualized Education Programs, and Educational Placements, Sec. 300.320 Definition of individualized education program, <https://sites.ed.gov/idea/regs/b/d/300.320>

Who Receives Special Education?

Special education services were provided to nearly 800,000 individuals in California, newborn through 22 years-old in Fiscal Year 2018-19, according to the California Department of Education. SFUSD served about 7,500 students with disabilities during that same year.⁵ Specific learning disability⁶, speech or language impairment, and autism are the most common disabilities among this population, as shown in Exhibit 1.

Exhibit 1: Learning Disability, Speech Impairment, and Autism Are the Most Common Disabilities Statewide and for SFUSD



Sources: California Department of Education and San Francisco Unified School District

⁵ Special Education – *CalEdFacts*, June 25, 2021, <https://www.cde.ca.gov/sp/se/sr/cefspeced.asp>

⁶ According to federal IDEA, specific learning disability refers to a disorder in one or more of the basic psychological processes involved in understanding or in using language, spoken or written, that may manifest itself in the imperfect ability to listen, think, speak, read, write, spell, or to do mathematical calculations.

How is Special Education Delivered?

Many California school districts are too small to maintain an adequate number of special education teachers to serve the limited number of special education students within their district.

For this reason, California requires small and mid-sized districts to form regional clusters known as “Special Education Local Planning Areas” (SELPAs), with a total of 139 such collaborative SELPAs statewide that share special education teachers and other resources.⁷ To receive State special education funding, all school districts in California are required to belong to a regional SELPA or, for larger districts, to establish their own. State special education funding is provided to SELPAs, which typically reserve some funding for regionalized services and distribute the rest to member

Congress Changed the IDEA Act Funding Formula in 1997 to Eliminate the Financial Incentive for Identifying and Retaining Students in Special Education. When the IDEA Act was first passed in 1975, states were not providing educational services to many children with disabilities. For this reason, Congress initially allocated federal funds for special education services based on the number of children with disabilities identified. This formula was designed to encourage states to proactively identify children with disabilities. Over time, a growing problem emerged of over-identifying children as disabled when they might not be truly disabled. According to the Congressional Research Service report *The Individuals with Disabilities Education Act (IDEA) Funding: A Primer*, this problem is most acute for minority children, particularly African American boys in urban schools with high proportions of minority students. In 1997, Congress changed the funding formula to one based on the total population of children in each state and the percentage of those children living in poverty. The poverty factor was added because there is a link between poverty and certain forms of disability.

districts.⁸ Because of its size, SFUSD is one of 40 single-district SELPAs in California. As with all single-district SELPAs, State special education funding is first allocated to San Francisco’s SELPA before funds are received by the school district.

⁷ California Department of Education, California Special Education Local Plan Areas, July 14, 2021 <https://www.cde.ca.gov/sp/se/as/caselpas.asp>.

⁸ California Legislative Analyst’s Office, Overview of Special Education in California, Nov. 6, 2019 <https://lao.ca.gov/Publications/Report/4110>.

Special Education Finance

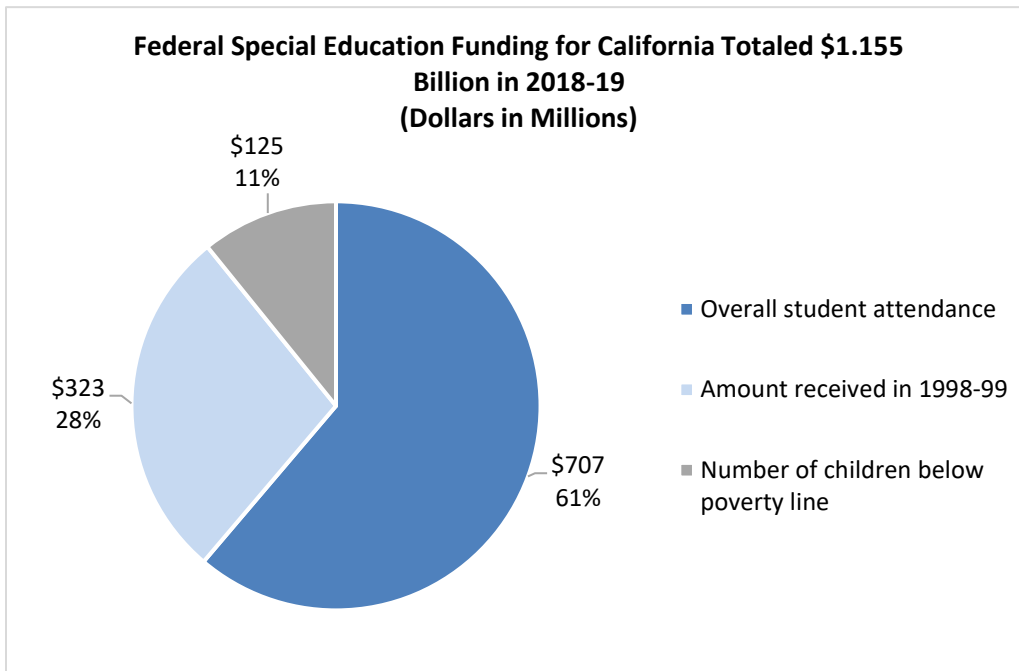
Federal Funding Based on Three Factors

Part B of the federal Individuals with Disabilities Education Act (IDEA) funds a grants-to-states program and a preschool grants program.⁹ Most federal special education funding (about 60 percent) is allocated through the State to SELPAs based on overall student attendance among district(s) within the SELPA, regardless of how many students receive special education or the cost of the services those students receive.¹⁰ Of the remaining federal special education funding, most is allocated based on the amount provided in FY 1998-99—known as the base year, the last fiscal year before the federal government implemented a revised funding formula to address the problem of over-identification of children with disabilities (see sidebar above for more detail). The third factor considered for the remaining federal funding is the number of children living below the federal poverty level. The change to the funding formula in the mid-1990s marked a shift in federal policy. The breakdown of federal special education funding for the State of California by each of these three factors is shown in Exhibit 2.

⁹ The Individuals with Disabilities Education Act (IDEA) Funding: A Primer, Updated Aug. 29, 2019, Congressional Research Service, <https://sgp.fas.org/crs/misc/R44624.pdf>

¹⁰ Overview of Special Education in California, California Legislative Analyst's Office, Nov. 6, 2019, <https://lao.ca.gov/Publications/Report/4110>

**Exhibit 2: Allocation of Federal Special Education Funding by
Three Funding Factors**



Source: California Legislative Analyst's Office

Federal IDEA Law Established Aspirational Funding Level Known as “Full Funding” that has Never Been Fulfilled

When Congress enacted predecessor legislation to the IDEA in 1975 — the Education of All Handicapped Children Act — the available estimate of the cost of educating children with disabilities was, on average, double the cost of general education. According to the Congressional Research Service, a determination was made by Congress that the federal government would pay some of this additional cost, using the national average per-pupil expenditure (APPE) to quantify costs. Congress ultimately determined that the federal government would pay up to 40 percent of the excess cost of providing special education services—calculated as 40 percent of national APPE adjusted by the number of children with disabilities in a particular state.¹¹ However, the federal government has never met the full funding amount for IDEA Part B grants to states. For their part, states and local school districts

¹¹ The Individuals with Disabilities Education Act (IDEA) Funding: A Primer, Updated Aug. 29, 2019, Congressional Research Service, <https://sgp.fas.org/crs/misc/R44624.pdf>

are subject to a “maintenance of effort,” in which they must spend at least as much on special education each year as they did the preceding year in order to receive federal funding.¹²

State Funding

Similar to the federal government, the State of California adopted a new funding formula in 1998. The formula is commonly known as “AB 602” after its authorizing legislation. The AB 602 funding formula shifted the State from the prior formula—known as J-50 (after the associated compliance form), which funded special education based on the types of services provided—to one based on total student attendance.¹³ Under the prior J-50 system in place from 1980 to 1998, funding to SELPAs became inequitable over time because the State did not update its cost survey for the three types of special education services that received funding.¹⁴ Another drawback was that the funding rates under the J-50 system paid for the cost of specific services common to special education in the late 1970s, rather than services provided in mainstream classrooms; this had the effect of providing a financial incentive for schools to serve students with severe disabilities in special day classes rather than the mainstream classroom, which would qualify as the least restrictive environment for many students.¹⁵

¹² California Legislative Analyst’s Office, Overview of Special Education in California, Nov. 6, 2019, <https://lao.ca.gov/Publications/Report/4110>

¹³ CA Legislative Analyst’s Office, History of Special Education in California, Feb. 27, 2018, <https://lao.ca.gov/Publications/Report/3764>

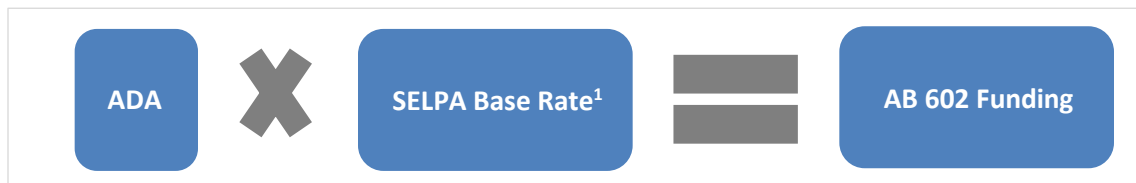
¹⁴ Three types of services that received funding included: special day classes for students with disabilities, resource specialists, and designated instruction and services provided in addition to regular instruction. CA Legislative Analyst’s Office, History of Special Education in California, Feb. 27, 2018, <https://lao.ca.gov/Publications/Report/3764>

¹⁵ CA Legislative Analyst’s Office, Feb. 27, 2018, History of Special Education in California, Feb. 27, 2018, <https://lao.ca.gov/Publications/Report/3764>

AB 602 Funding Formula was Intended to Simplify and Encourage Instructional Innovation

The AB 602 funding formula was intended to simplify and encourage instructional innovation by funding SELPAs based on overall student attendance in the district(s) covered by the SELPA. Schools no longer needed to complete complicated paperwork in order to receive state funding, since the AB 602 formula simply provides funding by multiplying average daily attendance by the SELPA base rate, as shown in Exhibit 3.

Exhibit 3: AB 602 Funding Formula for School Districts



ADA = average daily attendance and SELPA = special education local planning area.

¹The SELPA base rate for San Francisco was \$685.56 in FY 2019-20. The ADA was 51,687, yielding \$35.4 million in AB 602 funding in FY 2019-20, according to the California Department of Education. Total State special education funding received by the District was \$46.6 million in FY 2019-20, which includes funding from other categorical special education programs.

In terms of instructional innovation for students with disabilities, about 30 percent of students with severe disabilities in California were served in mainstream classrooms in FY 2016-17 compared to about 15 percent of such students in FY 1997-98.¹⁶ The State's AB 602 funding totaled \$3.2 billion in FY 2018-19, with some additional ongoing funding provided through various categorical programs, primarily for mental health services and out-of-home care.¹⁷ The State also funds extraordinary cost pools for expenses associated with very high-cost residential or non-public school placements, but funding for these programs was only \$6 million total in FY 2018-19 statewide.

Discussion at State Level on Improving the Funding System for Students with Disabilities

Our review of State spending plans for the last five fiscal years shows that the State legislature augmented its ongoing and one-time investments in special education by a total of \$2.1 billion (\$650 million of that was one-time money, mostly for pandemic-related support). The remaining \$1.4 billion of augmentations was added for ongoing State special education funding, as shown in Exhibit 4. However, nearly half of the \$1.4 billion augmentation was for funding enhancements

¹⁶ California Legislative Analyst's Office, History of Special Education in California, Feb. 27, 2018, <https://lao.ca.gov/Publications/Report/3764>

¹⁷ California Legislative Analyst's Office, Overview of Special Education in California, Nov. 6, 2019, <https://lao.ca.gov/Publications/Report/4110>.

for SELPAs with the lowest base rates in California, which did not include SFUSD. So, in spite of these statewide increases, the additional State funding allocated to SFUSD during this time period did not keep up with the District’s increased costs for special education services due in part to the growth in the number of SFUSD students with disabilities, as detailed subsequently in this report.

Exhibit 4: State Augmented Ongoing Special Education Funding in Recent Years but has not Kept Pace with SFUSD Costs (Dollars in Millions)

	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	Total
Increase special education base rate funding to SELPAs (AB 602)					\$397	\$397
Early intervention preschool services grant					260	260
Decline in overall student attendance					-9	-9
Increase special education base rate funding for lowest funded SELPAs (AB 602) ¹			153	545		698
Additional special education funding based on counts of students who have hearing, visual, and/or orthopedic impairments				100		100
Cost-of-living adjustment for AB 602	8	14	18			40
TOTAL	\$8	\$14	\$171	\$645	\$648	\$1,486

Source: California Legislative Analyst’s Office, CA Spending Plan (FY 2017-18 – FY 2021-22), Prop. 98 and K-12 Education

¹This funding enhancement did not apply to SFUSD because it was not among the lowest funded SELPAs.

In a State Senate Budget and Fiscal Review Hearing of the Subcommittee on Education Finance that took place on March 5, 2020, Senator Richard Roth (D-Riverside), Chair of the Subcommittee, expressed an interest in additional funding on top of the AB 602 funding formula in order to address the growing incidence of students with moderate to severe disabilities and the associated costs to serve these students. In response, the non-partisan California Legislative Analyst’s Office noted that any changes to the funding formula for special education could affect the behavior of school districts in identifying children with disabilities, as also noted by the Congressional Research Service report, *The Individuals with Disabilities Education Act (IDEA) Funding: A Primer*.

WestEd, a non-partisan, nonprofit research agency, released a report in July 2021 that provides considerations for further improving California’s special education funding system as shown in Exhibit 5. We wish to provide greater context for the first two considerations, highlighted below. The first consideration calls for establishing a funding formula that accounts for the number of students receiving special education services weighted by high-, mid-, and low-cost groupings. This is known as a weighted formula because it would allocate funds based on a count of students with disabilities, with funding tiers based on a student’s cost grouping. While this formula would

provide the benefit of higher funding levels for students likely to have higher costs, academic researchers have also found that weighted formulas can create a fiscal incentive for schools to over-identify or misclassify students with disabilities in order to qualify for higher funding levels.¹⁸ The second consideration for establishing an extraordinary cost pool builds on the existing extraordinary cost pools established by the State to target higher-cost students with disabilities.

**Exhibit 5: Long Term Considerations in WestEd Report on Improving
Special Education Funding in California**

1	Allocate the state's base rate funding using the count of students from the prior year, weighted by the proportion of students in each of the three primary disability cost groups (high, mid, and low) over the prior three years.
2	Establish and sufficiently fund a single state-level extraordinary cost pool to provide funds for the most expensive IEPs.
3	Use one-time and ongoing funds to invest in preparation of special education personnel for early childhood and K-12.
4	Transition over time from distributing state special education funds exclusively to SELPAs to distribute them to Local Education Agencies, which could then, at their discretion, provide funds to a regional entity for regional services.
5	Continue providing Educationally Related Mental Health Services funds to pay for services for students both with and without IEPs, potentially by allowing flexible use of a portion of base funds.
6	Given the number of students with disabilities who have needs beyond those related solely to their disabilities, encourage Local Education Agencies to create a single system for planning and coordinating funding and programs.

SELPAs = Special Education Local Planning Areas and IEP = Individual Education Plan.

Source: WestEd, California Special Education Funding System Study, Part 2: Findings, Implications, and Considerations for Improving Special Education Funding in California, July 2021.

¹⁸ California Legislative Analyst's Office, Overview of Special Education Funding Models, Dec. 2021

<https://lao.ca.gov/Publications/Report/4486>.

State’s Local Control Funding Formula Eliminated Many Categorical Spending Restrictions and Provides Supplemental Funding for English Learners and Low-Income Students.

In Fiscal Year 2013-14, the State enacted major changes to the way that it allocates funding to school districts, known as the Local Control Funding Formula (LCFF). In brief, the LCFF eliminated the vast majority of categorical spending restrictions and put in place a more limited set of spending restrictions. The formula provides a base rate of funding in four grade spans (K-3, 4-6, 7-8, and 9-12) to reflect the cost of education being higher at higher grade levels and includes supplemental funding for English learners and low-income students. Each English learner and/or low-income student generates an additional 20 percent of the qualifying student’s grade-span base rate. If a school district’s population of English learners and/or low-income students exceeds 55 percent of enrollment, then these school districts receive an additional 50 percent of the base rate for each English learner and/or low-income student above the 55 percent threshold. In short, the state’s LCFF simplifies the manner in which school districts are funded, giving school districts flexibility to determine how best to allocate funding. In recent years, SFUSD has used about 20 percent of its LCFF to support special education services.

Proposition 98 Determines Overall Education Funding. *Proposition 98 was a State ballot measure approved by voters in November 1988 that was intended to increase State funding for schools. The proposition added two formulas or tests to the State Constitution that provides a “minimum guarantee” of funding for K-14 education. Later, a third formula was added to allow the State to provide a lower level of funding when state revenue growth is relatively weak as well as a “maintenance factor” for strong revenue years. Altogether, the minimum guarantee of Proposition 98 is governed by eight interacting formulas and nearly a dozen different inputs. The LCFF is a component of Prop. 98 funding. In FY 2020-21, Prop. 98 provided a total of \$80.9 billion to schools, with \$63.4 billion (78 percent) in LCFF funding.**

* California Legislative Analyst’s Office, K-12 Proposition 98 Funding by Program, July 2021, <https://lao.ca.gov/Education/EdBudget/Details/547>

Local Funding

SFUSD’s special education budget is comprised of three main sources: federal, state, and local funds. As noted in the “Special Education Finance” section above, federal funding for special education is provided by Part B of the federal Individual with Disabilities Education Act (IDEA). The federal law authorizes a grants-to-states program and a preschool grants program for

children and youth with disabilities from ages three to 21.¹⁹ The IDEA Part B funding provided to SFUSD has been relatively flat over the five-year period we reviewed (from FY 2016-17 through FY 2020-21), averaging about \$14.3 million each fiscal year. AB 602 funding, described above, is the District’s primary source of State funding along with lesser State funding amounts provided through categorical programs. The remainder of the District’s special education funding is provided by the District’s Unrestricted General Fund derived from its Local Control Funding Formula (LCFF) dollars received from the State and over which the District has discretion to use as needed.

The District’s budget appropriation to meet its legally mandated special education costs grew by 35 percent over the last five years—from \$136.1 million in FY 2016-17 to \$184.1 million in FY 2020-21, as shown in Exhibit 6. Over this period, State and federal revenue collectively increased by only 6 percent, while the District’s Unrestricted General Fund contribution grew much faster at 57 percent.

Exhibit 6: SFUSD Special Education Adopted Budget Sources
FYs 2016-17 – 2020-21

Fund Source	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	% Change
State AB 602¹	\$35,443,680	\$36,069,616	\$37,517,392	\$38,275,483	\$39,248,521	11%
Federal	14,128,991	16,199,397	13,455,638	13,784,964	14,086,938	0%
Other State	7,641,257	9,020,625	8,034,128	8,312,394	7,290,378	-5%
Subtotal	57,213,928	61,289,638	59,007,158	60,372,841	60,625,837	6%
Unrestricted General Fund	78,837,607	75,319,562	81,642,817	96,166,851	123,457,870	57%
Total	\$136,051,535	\$136,609,200	\$140,649,975	\$156,539,692	\$184,083,707	35%

¹ State AB 602 funding amounts shown here include a small amount of other state special education funding, such as out-of-home care.

Source: San Francisco Unified School District

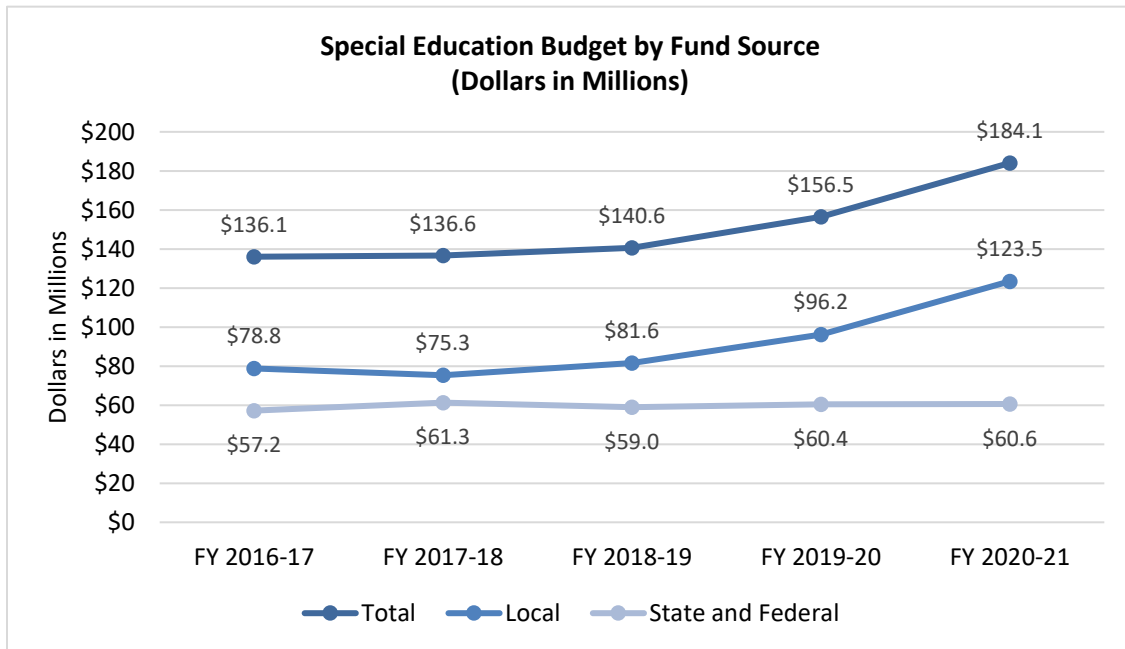
In FY 2020-21, the District spent 13 percent less than the total amount budgeted for special education of \$184 million—a significant deviation compared to other recent fiscal years. In that year, actual expenditures totaled \$162 million, meaning that the District spent \$17.7 million less in Unrestricted General Fund and \$4.2 million less in State and federal revenue compared to the amounts budgeted, due primarily to pandemic disruptions to in-person education and services.²⁰

¹⁹ The Individuals with Disabilities Education Act (IDEA) Funding: A Primer, Updated Aug. 29, 2019, Congressional Research Service, <https://sgp.fas.org/crs/misc/R44624.pdf>

²⁰ Many State and federal revenue sources are restricted and are not fungible with Unrestricted General Fund, leading to their underspending in FY 2020-21; some unspent federal funds will be spent in FY 2021-22, according to the District.

In general, the adopted special education budget reflects the District’s determination of its actual need to provide all necessary and legally mandated services to its special education students. The inability of State and federal special education revenue sources to keep up with overall cost increases for special education caused the District to draw upon increasing amounts of its Unrestricted General Fund (UGF) each year to cover the growing shortfall, as shown in Exhibit 7. The amount of UGF that has been added to the District’s special education budget grew by 57 percent over the five-year period, much larger than the overall 35 percent rate of growth in the special education budget over the time period. The share of special education funding supported by the District’s Local Control Funding Formula (LCFF) funding source grew from 58 percent (or, \$78.8 million) in FY 2016-17 to 67 percent (or \$123.5 million) in FY 2020-21. In order to fulfill its federally required mandate to provide a fair appropriate public education to all students, the District draws upon growing amounts of UGF because state and federal special education revenue sources have remained flat as costs continue to rise.

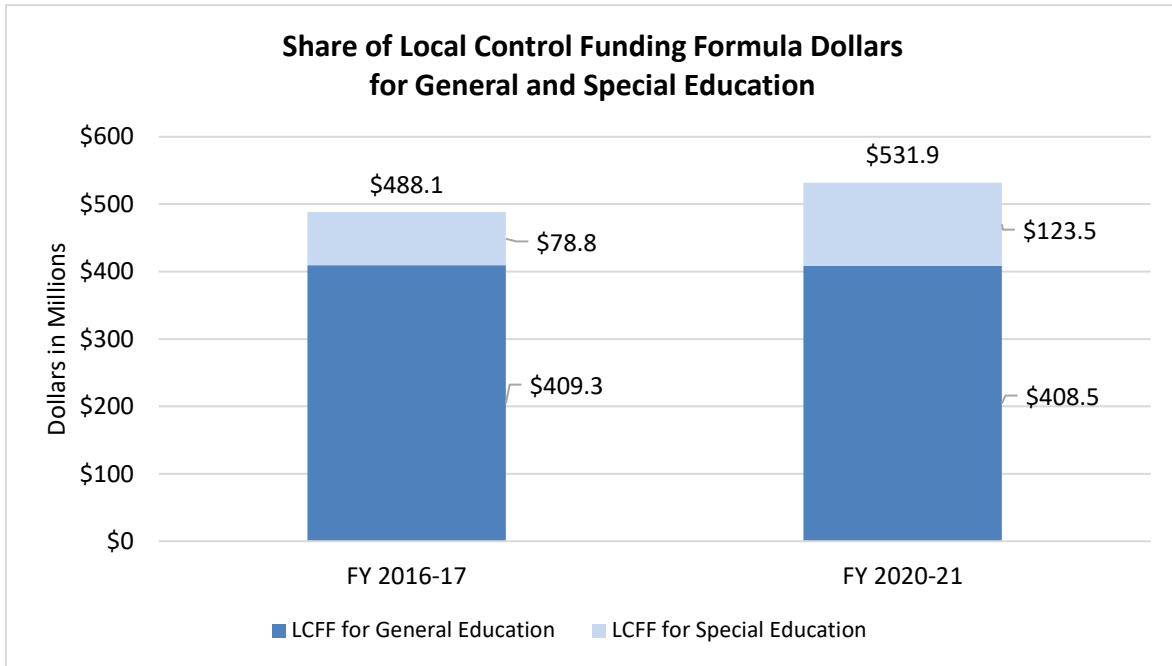
Exhibit 7: Unrestricted General Fund Increasingly Covers District’s Special Education Budget as State and Federal Sources have Remained Flat



Source: San Francisco Unified School District

The share of the District’s Local Control Funding Formula (LCFF) resources dedicated to special education funding grew from 16 percent (or, \$78.8 million) in FY 2016-17 to 23 percent (or \$123.5 million) in FY 2020-21, or by 57 percent, as shown in Exhibit 8. Unrestricted General Fund, sourced from the District’s LCFF funding, is also the primary source for the District’s general education budget.

**Exhibit 8: Share of LCFF Supporting Special Education Budget Grew by 57 Percent
 While Support for General Education Fell Slightly
 FY 2016-17 – FY 2020-21**



Source: San Francisco Unified School District data

Over time, general education has been receiving a smaller share of LCFF due to rapid cost growth in special education. Over the last five fiscal years, total LCFF funding provided by the State to the District increased by only 9 percent whereas LCFF funds budgeted for special education increased by 57 percent. As a result, the amount of LCFF funding available for general education has remained flat, as presented in Exhibit 9.

Exhibit 9: General Education LCFF Resources Are Flat After Accounting for Amount Budgeted for Special Education

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	% Change
LCFF	\$488,143,276	\$501,472,812	\$522,498,955	\$534,482,712	\$531,948,014	9%
LCFF for Special Ed	\$78,837,607	\$75,319,562	\$81,642,817	\$96,166,851	\$123,457,870	57%
LCFF available for General Ed	\$409,305,669	\$426,153,250	\$440,856,138	\$438,315,861	\$408,490,144	0%

LCFF = Local Control Funding Formula

Source: San Francisco Unified School District data; calculations by BLA

As discussed above, when Congress enacted predecessor legislation to the IDEA in 1975, its intent was to fund 40 percent of each state’s special education costs, calculated as 40 percent of

national average per-pupil expenditures adjusted by the number of children with disabilities in a particular state.²¹ However, the federal government never fulfilled this intent through IDEA Part B grants to states or any other federal funding source. If that had occurred, the State would have received \$3.2 billion in additional resources, according to the California Legislative Analyst’s Office. We estimate that the District would have received approximately 1.2 percent of these funds (its current share of state resources), or \$36.7 million more, as shown in Exhibit 10.

Exhibit 10: Impact of Federal Funding at 40 Percent of National Average Per-Pupil Expenditures, FY 2018-19

	Amount
Total federal funding at 40% of District costs	\$50,166,286
Actual federal funding FY 2018-19	\$13,455,638
Additional federal funding if 40% District costs	\$36,710,648

Source: San Francisco Unified School District data; calculations by BLA

The Governor’s FY 2022-23 state budget proposal includes a \$500 million increase in state funding to cover a proposed increase in the SELPA base rate from \$715 to \$820, or by \$105, for most SELPAs. We show in Exhibit 11 an estimate of the amount of funding that SFUSD would receive under the Governor’s proposal and under an alternative of a \$1 billion increase in state funding for the SELPA base rate, or \$500 million more than proposed by the Governor. This alternative would increase the rate further to \$925, since an additional \$105 could be added to the base rate with an additional \$500 million in state resources.

Exhibit 11: Impact of Two Scenarios if State Increases SELPA Base Rate in FY 2022-23

Total State Funding Scenarios	New SFUSD SELPA Base Rate	Change from \$715 Base Rate	ADA	Estimated Annual Additional AB 602 Funding for SFUSD
\$500 million (proposed by Governor)	\$820	\$105	50,096	\$5,260,080
\$1 billion (BLA scenario)	\$925	\$210	50,096	\$10,520,160

ADA = average daily attendance as reported by San Francisco Unified School District for FY 2019-20.

Source: calculations by BLA

The District identified its structural deficit for FY 2022-23 as approximately \$125 million. If State AB 602 special education funding increased by between approximately \$5.3 to \$10.5 million annually, consistent with the increased funding levels presented in Exhibit 11, at least a portion of the deficit would be reduced.

²¹ The Individuals with Disabilities Education Act (IDEA) Funding: A Primer, Updated Aug. 29, 2019, Congressional Research Service, <https://sgp.fas.org/crs/misc/R44624.pdf>

Special Education Cost Drivers

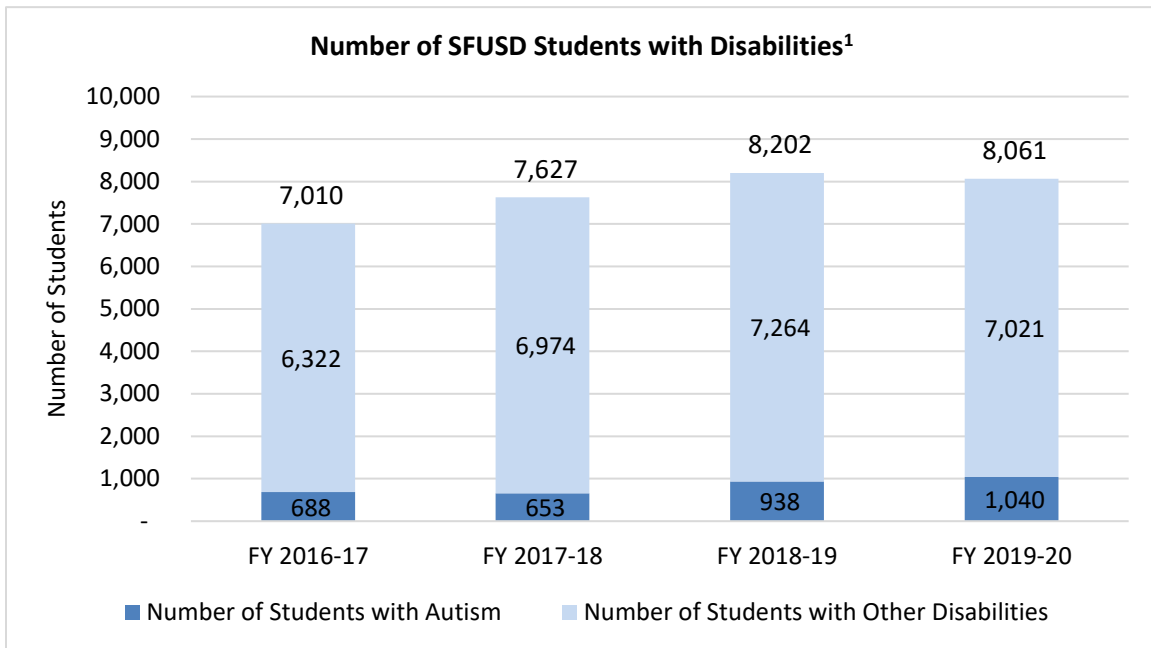
The increase in SFUSD's costs for special education presented above is primarily due to two factors according to District staff: 1) an increase in the number and diagnostic complexity of students with disabilities, and 2) increases in District labor costs.

Incidence of Students with Severe Disabilities is Increasing

The overall incidence of students with disabilities is on the rise. SFUSD's total enrollment and average daily attendance were flat over the four-year period from FY 2016-17 through FY 2019-20, but the number of students with disabilities grew by a total of 15 percent.²² The growth in the number of students with autism grew more than three times faster, increasing by 51 percent over the four-year period, as shown in Exhibit 12.

²² Ed Data Education Data Partnership CDE EdSource FCMAT, <https://www.ed-data.org/>, 2022.

**Exhibit 12: Number of Students with Disabilities Grew 15 Percent Overall while
 Number with Autism Grew 51 Percent**



¹Number of students with other disabilities includes the total count of students in San Francisco, which is primarily SFUSD students. The count does include a limited number of students who receive services outside of the school district, but within the city of San Francisco.

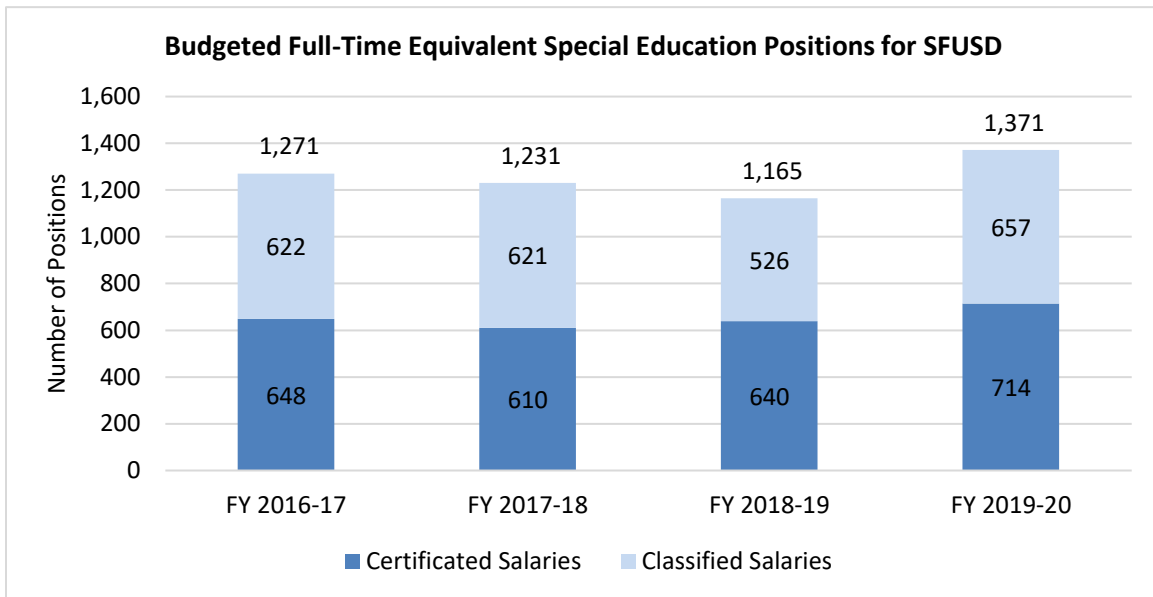
Sources: San Francisco Unified School District, and Ed Data Education Data Partnership CDE Ed Source FCMAT (<https://www.ed-data.org/>)

The California Legislative Analyst’s Office estimated in 2019 that two-thirds of recent special education cost increases statewide are due to a rise in the incidence of students with relatively severe disabilities (driven by an increase in autism in particular).²³ Autism affected 1 in 600 California students in FY 1997-98 compared to 1 in 50 students in FY 2017-18. Students with autism are costly to serve because they typically require intensive support from paraprofessionals, speech pathologists, occupational therapists, and adaptive physical education specialists, among other specialists.²⁴ While the special education costs associated with SFUSD students with autism were not available from the District, we can see that that the number of budgeted full-time equivalent (FTEs) special education positions has increased by 8 percent over the last four years, as shown in Exhibit 13. The District reports that this increase in FTEs is driven by the increase in students with relatively severe disabilities, particularly autism.

²³ Overview of Special Education in California, California Legislative Analyst’s Office, Nov. 6, 2019, <https://lao.ca.gov/Publications/Report/4110>

²⁴ Overview of Special Education in California, California Legislative Analyst’s Office, Nov. 6, 2019, <https://lao.ca.gov/Publications/Report/4110>

Exhibit 13: Budgeted Full-Time Equivalent Special Education Positions Increased by 8 Percent Overall, FY 2016-17 through FY 2019-20



Source: San Francisco Unified School District

SFUSD Education Labor Costs Are Growing Due to Higher Pension Costs and Lifetime Retiree Health Benefits

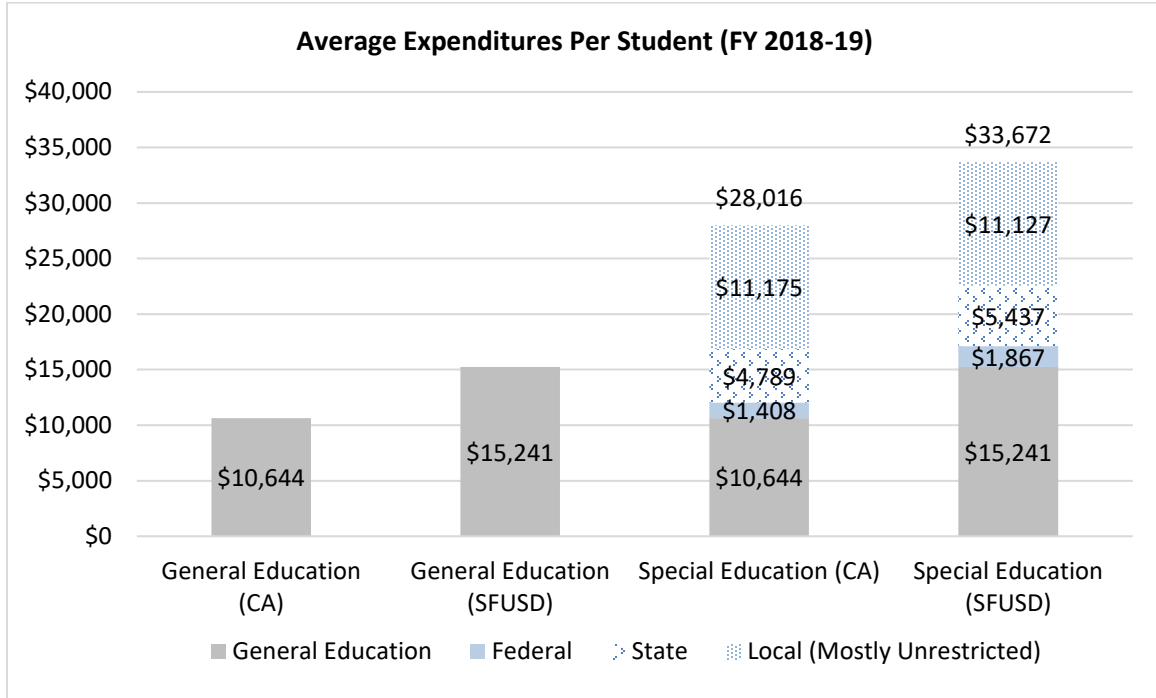
Since FY 2013-14, increases in state K-12 funding have resulted in school districts increasing staff salaries. Over this period, school districts have also been required to make larger pension contributions on behalf of employees. The District's Annual Financial Report for FY 2019-20 reported a cost of \$92 million to the state teachers' pension fund and \$31 million to pension funds for all other SFUSD workers. The District contributed 17.1 percent of payroll costs to the state pension fund for FY 2020-21, which is up from 8.9 percent in 2015. The District also provides a generous retiree health benefits package, covering 100 percent of lifetime health benefits for employees and some dependent care if employees retire with at least 20 years with the District. The District recognized \$47.2 million in FY 2019-20 to pay for health care and other post-employment benefits (other than pensions) for 4,963 retirees and dependents, according to the Annual Financial Report for that year.

Special Education Costs in Other Districts

In California, the total cost of educating a student with a disability is, on average, almost three times more than the average cost for general education, as shown in Exhibit 14. In San Francisco, the average total cost of educating a student with a disability is more than double the average

cost per student of general education. Of this total average cost per special education student, the state and federal governments cover 22 percent of costs—statewide and in San Francisco.

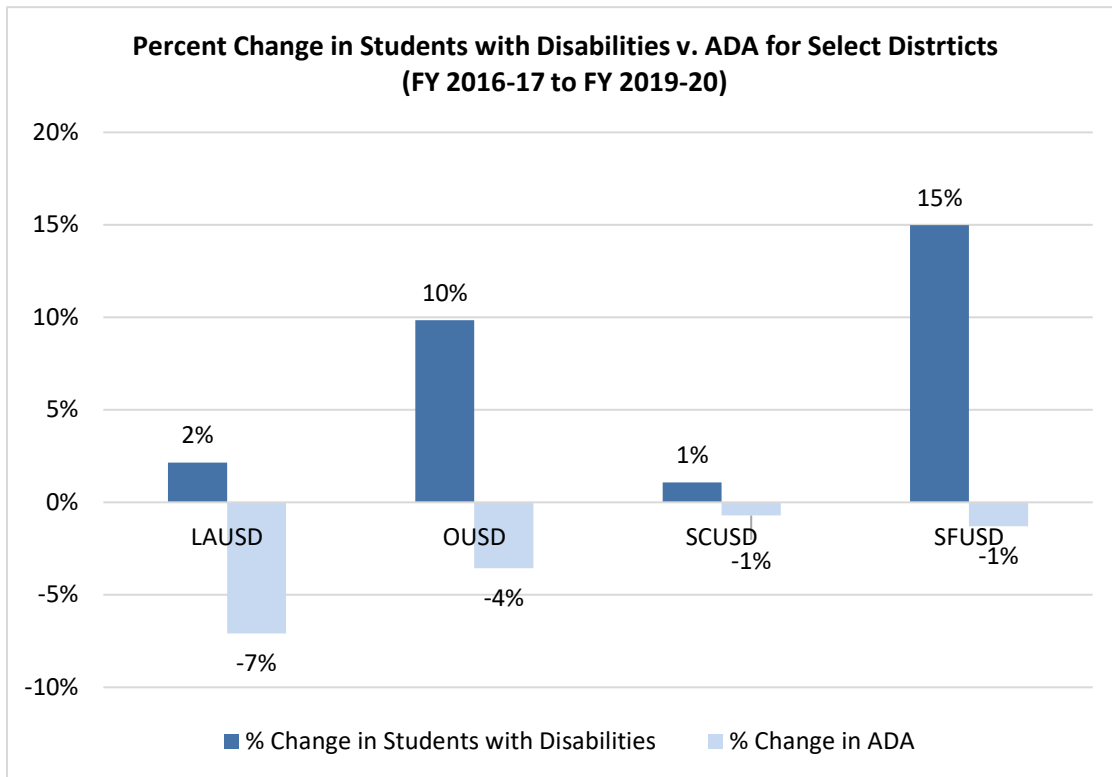
Exhibit 14: Special Education is More Costly per Student Statewide and for SFUSD Compared to General Education



Sources: San Francisco Unified School District; California State Special Education Funding System Study, Part 2, WestEd, July 2020; Ed Data Education Data Partnership CDE EdSource FCMAT, <https://www.ed-data.org/>, 2022; calculations by BLA.

We found that the cost trends we have identified and described for SFUSD are also occurring in other California school districts. We compared Los Angeles Unified School District (LAUSD), Oakland Unified School District (OUSD), and Sacramento City Unified School District (SCUSD) and found that districts statewide experience similar cost pressures as SFUSD. Like SFUSD, these other three districts are experiencing a decline in their average daily attendance (ADA) as the number of students with disabilities is growing, as displayed in Exhibit 15.

Exhibit 15: Districts Are Experiencing Growth in the Number of Students with Disabilities While Average Daily Attendance is Declining



ADA = average daily attendance, LAUSD = Los Angeles Unified School District, OUSD = Oakland Unified School District, SCUSD = Sacramento City Unified School District, and SFUSD = San Francisco Unified School District

Sources: CA Department of Education and Ed Data Education Data Partnership. CDE EdSource FCMAT, <https://www.ed-data.org/>, 2022; calculations by BLA

These trends are significant because the state’s AB 602 special education funding is calculated based on a formula that multiplies the ADA, rather than the number of students with disabilities, by each district’s corresponding SELPA base funding rate (an amount that varies for each SELPA due to historical variation in how much each SELPA received under the funding formula prior to AB 602). Because ADA is declining for all districts, substantial growth in the base rate that a SELPA receives and/or relatively low growth in the number of students with disabilities are needed for a district to receive more funding per special education student over time. Indeed, this is what we found in the case of four districts reviewed; LAUSD, OUSD, and SFUSD all experienced a decline in expenditures per special education student because of declines in their ADA that were not offset by increases to their corresponding SELPA base rate and/or low growth to the number of students with disabilities. For SCUSD, we found that the fiscal impact of a relatively small ADA decline was offset because of a substantial double-digit increase to its state funding and relatively low growth in the number of students with disabilities.

We reviewed total expenditures for three additional school districts, and we found that all districts are contributing a growing share of local unrestricted General Fund to cover growing special education costs, as shown in Exhibit 16.

Exhibit 16: Federal and State Funds Are Not Keeping Up with Districts’ Special Education Cost Growth (Dollars in Millions)

	FY 2016-17	FY 2019-20	% Change
Long Beach Unified			
Federal & State	\$59.3	\$60.5	2%
Local	218.7	239.2	9%
Total	278.0	299.7	8%
Los Angeles Unified			
Federal & State	556.8	550.8	-1%
Local	1,840.5	2,089.8	14%
Total	2,397.3	2,640.6	10%
Oakland Unified			
Federal & State	36.9	37.9	3%
Local	90.1	129.3	43%
Total	127.1	167.2	32%
Sacramento City Unified			
Federal & State	35.0	38.4	10%
Local	120.5	140.2	16%
Total	155.5	178.6	15%
San Diego Unified			
Federal & State	97.9	101.9	4%
Local	407.9	432.6	6%
Total	505.8	534.5	6%
San Jose Unified			
Federal & State	14.4	13.7	-45%
Local	79.5	94.4	19%
Total	93.9	108.2	15%
San Francisco Unified			
<i>Federal & State</i>	<i>57.2</i>	<i>60.4</i>	<i>6%</i>
<i>Local</i>	<i>78.8</i>	<i>96.2</i>	<i>22%</i>
Total	136.1	156.5	15%

Note: Financial data was not verified by each school district and is displayed as reported by Ed Data, except in the case of San Francisco Unified School District, for which data displayed was provided by the District. Federal and state amounts reflect total special education revenue for special education resource codes, and local funds reflect General Fund expenditures for special education goal codes as reported by Ed Data.

Source: Ed Data Education Data Partnership. CDE EdSource FCMAT, <https://www.ed-data.org/>, 2022; calculations by BLA