

Special Education

LEGISLATIVE ANALYST'S OFFICE

Presented To:
Assembly Budget Subcommittee No. 2

May 18, 2005





Special Education Increased Funding, 2005-06 Over 2004-05

(In Millions)

	May Revision
Growth and cost-of-living adjustments	\$192.7
Discretionary increases	
Out-of-Home Care	15.0
Base funding increase	39.3
AB 3632 contracting funds	4.0
Subtotal	(\$58.3)
Total	\$251.0

- ☒ Of the proposed increase of \$251 million in total funds for special education in 2005-06, all but \$9.6 million was reflected in the January Governor's budget. This relatively small increase in May masks a number of significant changes.
- ☒ The May Revision proposes to use all of the increase in federal funds (\$58.3 million) for discretionary program augmentations (see the figure above).
- ☒ The May Revision would increase to \$39.3 million from \$24.8 million (Governor's budget) the "pass through" of federal funds to the AB 602 base funding formula. These funds would be available for any special education cost.
- ☒ The May Revision reduces to \$15 million from \$20.2 million (Governor's budget) the proposed increase for the new Out-of-Home Care (OOHC) formula (that replaced the Non-Public Schools [NPS] funding program).



LAO Concerns

- ☒ ***The May Revision Proposes to Use State Funds to Pay for Growth and Cost-of-Living Adjustment Increases on Federal Funds.*** We estimate the state could use \$45.2 million of federal funds in lieu of Proposition 98 funds for these adjustments. This would free-up a like amount of General Fund dollars that could be used for any Proposition 98 program.

- ☒ ***The Proposed 2005-06 Appropriation for the AB 602 Base Funding Formula and the OOHHC Formula Is Overbudgeted by \$21.7 Million.*** Both programs use prior-year expenditures as a base for calculating the budget-year appropriations. This overbudgeting was caused by using a prior-year base that was too high and makes a total of \$76 million actually available.

- ☒ ***The May Revision Does Not Recognize \$26 Million in Proposition 98 Funds That Must Be Spent to Satisfy Federal “Supplanting” Requirements.*** These result from savings created by lower-than-expected growth in attendance in 2003-04.



Special Education Discretionary Funds

2005-06
(In Millions)

	May Revision Adjusted ^a	LAO
Ongoing Funds		
Out-of-Home Care formula	\$19.6	\$16.0
AB 602 augmentation	56.4	—
Mental health services	—	60.0
Totals	\$76.0	\$76.0
One-Time Funds		
One-time block grant	—	\$23.8
Out-of-Home Care (technical)	—	2.2
Unallocated	\$26.0	—
Totals	\$26.0	\$26.0

^a Reflects LAO technical adjustments.



The May Revision (as Adjusted) Proposes Discretionary Increases of \$76 Million for Special Education for 2005-06. The OOHHC formula increase totals \$19.6 million—\$4.6 million higher than proposed. Similarly, the budget's AB 602 formula actually increases by \$56.4 million, or \$17.1 million more than proposed.



We Recommend Spending the Entire \$76 Million for Special Education. The Legislature could, however, redirect \$63.1 million (or all but \$12.9 million to meet federal requirements) to any other Proposition 98 program. We discuss our specific recommendations below.



LAO Recommendations



Repeal the AB 3632 Mental Health Services Mandate. We recommend approval of the May Revision proposal to repeal the mandate that requires county mental health agencies to provide mental health services to special education students as required by federal law. The following actions are needed to implement this recommendation:

- ***Use \$60 Million of Available State and Federal Funds to Support District Costs of the Mental Health Services.*** Our recommendation is based on the most recent data on county claims for this program.
- ***Eliminate the Mandate Effective January 1, 2006.*** This would give districts a six-month transition period.
- ***Earmark \$69 Million in Federal Funds for County Costs of Providing Services for July Through December 2005.*** The May Revision proposes to reduce to \$65 million the amount of federal funds available for the transfer. We recommend the Legislature reject this proposal. A revision to budget bill language also would be needed to implement our recommendation.
- ***Revise the Proposed Trailer Bill Language to (1) Encourage Collaboration Between Local Education and Mental Health and (2) Create an Oversight Role for the State.*** We recommend revising the statutes to reflect a continuing interest in ensuring that students receive needed mental health services.



LAO Recommendations

(Continued)



Increase Support for the OOHC Formula. We recommend using \$16 million of the available funds to make progress towards fully funding the new formula. This formula, enacted as part of the 2004-05 budget, replaced the previous NPS funding formula. The additional funds would:

- ***Provide Funds to Resolve a Technical Error in the Statutory Formula.*** The current statute inadvertently omitted a class of group homes from the formula. Including these homes adds \$2.2 million in new costs.
- ***Make Progress Towards Fully Funding the New Formula.*** In 2004-05, the budget provided about \$159 million for OOHC. We estimate fully funding the formula in 2005-06, however, would cost about \$203 million. By augmenting this formula, therefore, the subcommittee could make significant progress towards fully funding OOHC.



Recognize Past-Year Special Education Obligation. We recommend spending \$26 million to meet the federal supplanting requirements in special education for 2003-04. Of this amount, we recommend using \$2.2 million to correct the technical problem in OOHC (discussed above). We recommend distributing the remaining \$23.8 million as one-time grants based on attendance.



Realign "State-Level" Activities. To accommodate our recommendation to use \$69 million in federal funds for AB 3632 costs, we recommend using General Fund Proposition 98 funds to pay for two programs that are currently supported with federal funds: (1) special education staff development funds (\$2.5 million) and (2) court-ordered funds for the Ravenswood Elementary District improvement plan (\$1.5 million).



Federal Special Education Funds

State-Level Activities 2005-06 LAO Proposal

	Fund Source	
	Federal	General
Administration		
General administration	\$2,757,375	
Monitoring	11,810,581	
Other	774,659	
Clearinghouse	1,315,475	
Mental health monitoring	443,000	
NPS monitoring	232,000	
Subtotal	(\$17,333,090)	
State Activities		
Second language	\$318,000	
Severely handicapped	364,000	
Advisory commission	96,000	
Special schools—transportation	963,000	
CYA monitoring	303,000	
McGeorge	10,140,000	
Family empowerment	2,372,000	
Subtotal	(\$14,556,000)	
Other		
In-service training		\$2,500,000
Alternative dispute	\$300,000	
Quality assurance	1,420,000	
Ravenswood		1,480,000
Mental health	69,000,000	
Subtotal	(\$70,720,000)	
Total	\$102,609,090	
Total available (including carryover)	\$103,031,539	
Balance	\$422,449	