

Date of Hearing: April 15, 2026

ASSEMBLY COMMITTEE ON EDUCATION
Darshana R. Patel, Chair
AB 2526 (Muratsuchi) – As Amended March 19, 2026

SUBJECT: Education finance: local control funding formula: special education grant

SUMMARY: Adds a special education grant to the Local Control Funding Formula (LCFF) for school districts, county offices of education (COEs), and charter schools. Specifically, **this bill:**

- 1) Creates, within the LCFF, a special education grant to be provided to school districts and charter schools, to be computed by multiplying the total base grants by the percentage of enrolled pupils who are severely disabled by 20%.
- 2) Creates, within the LCFF, a special education grant to be provided to COEs, to be computed by multiplying the total base grant by the percentage of enrolled pupils who are severely disabled and by 35%.
- 3) Requires that the grant be spent on services for students who are severely disabled, defined to include students who are identified as requiring services for autism, blindness, deafness, severe orthopedic impairments, serious emotional disturbances, severe intellectual disability, and those individuals who would have been eligible for enrollment in a development center.
- 4) Requires, under procedures and timeframes established by the Superintendent of Public Instruction (SPI), county superintendents of schools, school districts, and charter schools to annually report their enrollment of individuals who are severely disabled served using the California Longitudinal Pupil Achievement Data System (CALPADS). Requires the SPI to calculate the special education grants using the data submitted through CALPADS.
- 5) Requires COEs, school districts, and charter schools receiving special education to prioritize early interventions for pupils who are severely disabled.
- 6) States the intent of the Legislature that special education grants should supplement, not supplant, other funding for special education, including, but not limited to, funding apportioned pursuant to the formula known as AB 602.

EXISTING LAW:

- 1) Establishes, commencing with the 1998-99 fiscal year, a “census based” funding system for the allocation of state special education funds, providing most funding appropriated for support of special education programs on the basis of the average daily attendance (ADA) of special education students enrolled in the prior year, multiplied by a funding rate unique to each special education local plan area (SELPA). (Education Code (EC) 56836 et seq).
- 2) Establishes an extraordinary cost pool for the extraordinary costs associated with single placements in nonpublic, nonsectarian schools. (EC 56836.21)

- 3) Establishes a low incidence disability fund for costs associated with the education of students who are visually impaired, hearing impaired, and severely orthopedically impaired, and any combination thereof. (EC 56838.22)
- 4) Defines “severely disabled” to include students with the following disabilities: autism, blindness, deafness, severe orthopedic impairments, serious emotional disturbances, severe intellectual disability, and those individuals who would have been eligible for enrollment in a development center. (EC 56030.5)
- 5) Establishes a base LCFF grant of the following amounts per ADA in 2025-26:
 - a) \$11,322 for grades K-3, which includes a 10.4% grade span adjustment for class size reduction;
 - b) \$10,411 for grades 4-6;
 - c) \$10,719 for grades 7-8; and
 - d) \$12,746 for grades 9-12, which includes a 2.6% grade span adjustment for college and career readiness. (EC 42238.02)
- 6) Establishes a supplemental grant equal to 20% of the base grant for school districts and charter schools, and 35% for COEs, for each pupil identified as either low-income (based on eligibility for free or reduced-price meals), an English learner (EL), or in foster care (“unduplicated pupils”). (EC 42238.02, 2574)
- 7) Establishes a concentration grant based on the number of unduplicated pupils in excess of 55%, times 65%, of the district or charter school total enrollment. (EC 42238.02)
- 8) Provides that the COE supplemental grant shall be equal to 35% of the total base grant multiplied by the percentage of the total enrollment that is either low income, an EL, or in foster care. (EC 2574)
- 9) Provides that the concentration factor grant shall be equal to 35% of the total base grant multiplied by the percentage of the total enrollment that is either low income, an EL, or in foster care that is in excess of 50% of the total COE enrollment. (EC 2574)

FISCAL EFFECT: This bill has been keyed a possible state mandated local program by the Office of Legislative Counsel.

COMMENTS:

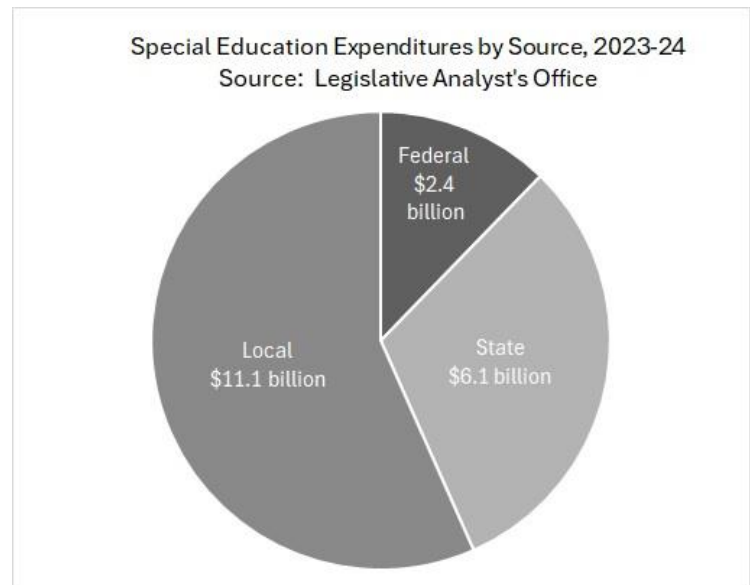
Need for the bill. The author states, “Over ten years ago, California led the nation by adopting the Local Control Funding Formula (LCFF) to ensure students with the greatest needs received the most resources. While we’ve made great strides, we have left a massive hole in that formula: our students with disabilities.

Right now, school districts across California are facing a silent crisis. Special education costs are rising faster than state funding, our local schools are forced to dip into their general funds pulling billions of dollars away from art, music, and smaller class sizes just to meet legal mandates.

AB 2526 fixes this structural flaw by creating a dedicated Special Education Add-On within the LCFF to provide sustainable, ongoing funding ensuring that students with the greatest needs receive much needed resources.”

Special education finance in California.

Special education in California is funded with a combination of federal, state, and local revenues. According to the Legislative Analyst’s Office (LAO) total expenditures in 2023-24 were approximately \$19.7 billion. These sources are described below:



- Federal funding:** Since 1975, the federal government has provided funding to support the education of students with disabilities. While the federal commitment was to provide 40% of the "excess cost" of educating children with disabilities compared to non-disabled peers, it has never met this goal. Nationally, federal funds cover about 13-15% of cost. In the 2025-26 budget, California received \$1.5 billion in federal funds for special education.
- State funding:** State support for special education are known as “AB 602” funds, after the authorizing legislation (AB 602 (Davis and Poochigian), Chapter 854, Statutes of 1997). These funds are allocated using a census-based method that allocates special education funds to SELPAs based on the total number of students attending school in local educational agencies (LEAs) belonging to that SELPA. The intent of AB 602 funding was to remove financial incentives to over-identify students with disabilities that existed under the prior J-50 model. AB 602 also included a Special Disabilities Adjustment (SDA) which accounted for variation in the enrollment of students with more severe disabilities. This adjustment was eliminated in 2011-12, and at the time totaled \$74 million. In the 2025-26 budget, \$5.5 billion in state funding was appropriated for special education, of which \$5.2 billion was AB 602 funding. Additional state funding was appropriated for an early intervention grants (\$260 million), early intervention preschool program (\$109 million), educationally related mental health programs (\$461 million), nonpublic schools (\$157 million), and other programs.
- Local funding:** LEAs also use their general purpose revenues (LCFF) to pay for special education costs. According to the LAO, based on their analysis of historical spending data, the share of special education costs covered by local funds is roughly 60%.

Though LEAs use LCFF funding to support students with disabilities, both as general education students and to meet their additional needs, students with disabilities are not an “unduplicated” student group for purposes of the LCFF.

Additional funding for high-cost special education placements. In addition to AB 602, the state currently provides two sources of funding for low incidence, and generally higher cost, placements:

- ***Low Incidence funding.*** The 2025-26 budget appropriates approximately \$137 million to support the cost of special education for students with low incidence disabilities, defined as students who are blind, deaf or hard of hearing, deaf-blind, or who have severe orthopedic impairments. This funding source was established in 1985. Funding is provided on the basis of actual pupil counts. Students with these disabilities comprise a very small share of enrollment. Services for these students tend to be significantly higher in cost than for other special education students.
- ***Extraordinary cost pool.*** Current law establishes an extraordinary cost pool for the costs associated with very high cost placements, on a reimbursement basis. Funds are first available to fully reimburse extraordinary costs associated with educationally related mental health services, including out-of-home residential services for necessary small special education local plan areas, and remaining funds are available for reimbursements for placements in nonpublic, nonsectarian schools (NPS) and students residing in licensed children’s institutions. Funding for the extraordinary cost pool increased from \$6 million in 2016 to \$20 million in 2025-26.

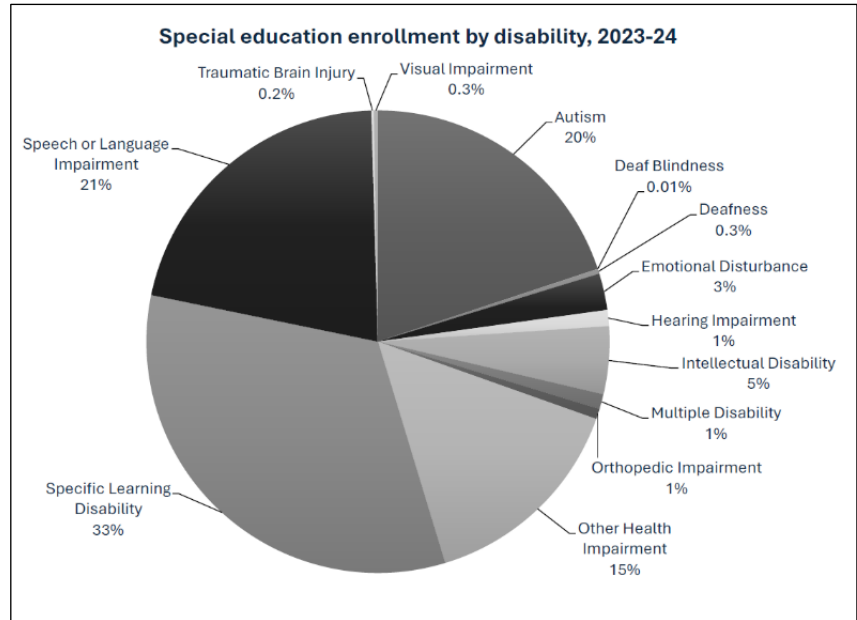
The special disabilities adjustment, which provided funding for LEAs with a disproportionate share of students with extensive needs, was eliminated in 2011. As part of the AB 602 reform, a funding mechanism known as the “special disabilities adjustment” (SDA) was created to provide additional funding to SELPAs which enrolled a disproportionately large number of “high-cost” special education pupils. This funding was based on an incidence multiplier that was developed pursuant to a study completed in 1998 by the American Institutes for Research (AIR).

Recognizing that these factors may change over time, AB 602 sunset the incidence multiplier after the 2002-03 fiscal year, and required a new study to be completed by March of 2003. AIR completed this second study, which recommended that 1) the incidence multiplier be updated at least every five years, if not annually, 2) the state gradually phase-out allocation to SELPAs that had been receiving adjustment funds for the five years prior to the release of the report, and 3) the state provide full and immediate funding to SELPAs identified as responsible for a disproportionate number of high cost students.

The incidence multiplier was never updated due to concerns about the redistribution of funding. The authority for the SDA was extended annually by legislation for a number of years, and during those years the CDE continued to calculate the adjustment based on the original 1998 formula. In 2011 the Legislature allowed the authority to sunset. At that time the SDA appropriation was \$74 million. ***The Committee may wish to consider that*** until 2011 the SDA provided a significant source of funding to account for the cost of students with extensive support needs, and that since that time the number of students with these needs has increased significantly.

State special education funding has increased significantly in the last decade. But increasing state funding doesn't necessarily mean increased spending on special education. According to the Governor's Budget Summary for 2026, state funding for special education has increased by \$2.2 billion, or 68%, since 2018-19. Much of this funding was appropriated to equalize AB 602 base rates, which had been unequal since the 1970's. Funding has also been provided to increase low-incidence funding and for early intervention initiatives.

When LEAs receive an increase in AB 602 funding, they can add it to their special education programming - for example, to lower caseloads. They can also use it to offset their general education contribution to special education, and use the freed-up general fund for things like improving teacher compensation (including special education teacher compensation). LEAs may be cautious about adding new funding to special education because it raises their federal maintenance of effort. While this bill includes a statement of legislative intent that the special education grant funds supplement and not supplant existing funds, it does not require it. ***The Committee may wish to consider that*** the manner in which LEAs budget any new AB 602 funding is a local decision.



Significant trends in special education enrollment are driving concerns about the finance system. Several trends, including declining enrollment, the number and needs of students with disabilities, and the share of special education costs coming from LEA's general fund, are currently converging:

- The trend lines for overall enrollment and enrollment of students with disabilities have diverged. According to the Governor's Budget Summary for 2026, between 2018-19 and 2024-25 statewide enrollment declined by 380,000, while enrollment in special education increased by more than 70,000. Over those years, the percentage of students with disabilities as a share of total enrollment has grown from 12.9% to 14.9%.

This is notable because the state's special education funding formula apportions funds on the basis of each SELPA's total enrollment, rather than the enrollment of students with disabilities. So if an LEA's overall enrollment is declining while its share of students with disabilities is increasing, it receives less funding through AB 602.

- Trend toward higher percentage of high-cost placements. The chart on this page shows the distribution of disabilities among students with disabilities. Notably, the percentage of students identified with a specific learning disability, a lower cost disability, has

declined from 57% in 2002-3 to 33% in 2023-24. Over the same time period, students with autism spectrum disorders, generally considered a higher cost disability, increased from 2% to 20%.

- Local funds covering an increasing share of special education costs. According to the LAO, over the past two decades special education costs have increased faster than federal and state categorical funding, requiring districts to rely more on local funds. Based on their analysis of historical spending data, they estimate the share of special education costs covered by local funds has increased from roughly 50% to roughly 60% over the past decade.
- Charter school vs. LEA enrollment of students with extensive support needs. As raised in an analysis of a similar bill in 2017, the share of cost for students with extensive support needs does not fall evenly on school districts and charter schools. In 2024-25, charter schools enrolled 12.5% of all students, but enrolled only 6% of all students with significant cognitive disabilities, as measured by the percentage of students who took the state's alternate English language arts assessment.

Recommendations to increase funding to address shifts to higher cost placements. Recent reports addressing the issue of state funding to support students with extensive support needs are shown below:

- In 2021, WestEd published *California State Special Education Funding System Study, Part II*, which recommended that the state allocate base special education funding using the count of students with disabilities from the prior year, weighted by the proportion of students in each of three primary disability category cost groupings (high, mid, and low) over the prior three years, to align funding more closely to actual costs.
- In 2016, the Public Policy Institute of California issued a report titled, *Special Education Finance in California*, which analyzed California's special education finance system in light of the principles that underlie the LCFF. The PPIC recommended that the state increase funding to special education generally in order to recognize the higher costs generated by rising caseloads relative to ADA and the shift towards more severe disabilities.
- In 2015, the Statewide Task Force on Special Education, composed of the State Board of Education (SBE), the Superintendent of Public Instruction (SPI), and the Commission on Teacher Credentialing (CTC), issued a comprehensive report titled *One System: Reforming Education to Serve ALL Students*. Noting that actual expenses far exceed current low incidence funding amounts, the report recommended that the Low Incidence fund be increased by \$50 million, providing \$1,600 per eligible student.

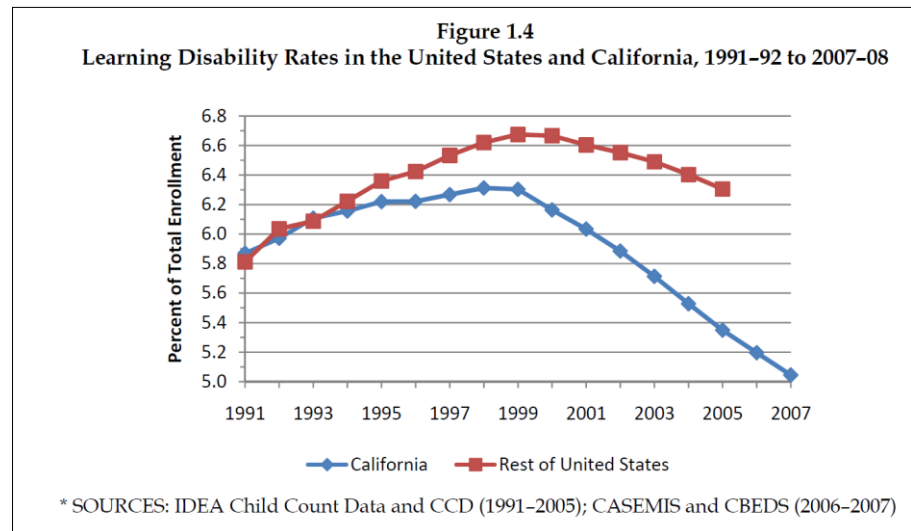
Bill affects governance structure for special education finance and adds complexity to the system. This bill proposes to create a special education grant within the LCFF.

Current law requires special education funding (with a few exceptions) to flow through SELPAs. By creating an LCFF grant for special education, this bill would alter the governance structure by sending some special education funding directly to school districts, bypassing the SELPAs.

This bill also makes the special education finance system more complex. LEAs would receive federal and AB 602 funding through SELPAs and receive a special education grant directly through the LCFF. This raises questions about how to account for the maintenance of effort, what effects it might have on the state's accountability system, and whether, in the long term, special education funding as a whole will become a subset of the LCFF.

The problems with allocating funding based on disability.

This bill essentially proposes a two-part system for funding special education: one census-based funding source for all disabilities and one pupil count-based funding source for students with "severe disabilities," provided as a grant within LCFF.



Funding based on disability count poses two challenges: incentives to over-identify, and challenges sending funding where there is need.

California's experience moving from a model based on identified pupils (J-50) to a census-based model (AB 602) illustrates the effect of removing financial incentives to identify students as disabled. As shown in the chart above (PPIC, 2009), after shifting to a census-based model, the number of students identified as having learning disabilities declined precipitously. PPIC found that the enactment of AB 602, and a similar policy change in the 1997 reauthorization of the IDEA, diminished the fiscal incentive to identify additional students as a means of increasing funding, and found evidence that the same pattern occurred in other states which adopted census-based models.

Another challenge is that disability categories are not necessarily a good match for need. The clearest example of this is the category of autism spectrum disorders, which includes students from minimal to extensive support needs, and therefore a large range in cost. If the goal of a proposal like this bill is to send money to address higher costs, doing so by disability category may not always be effective.

In recent years some reforms have focused on student need instead of disability category. The structure of credentialing for teachers serving students with disabilities, for example, has shifted to one based on disability category to one based on support needs. ***The Committee may wish to consider that*** this kind of approach solves both of the problems noted above.

Recommended Committee amendments. Staff recommends that this bill be amended to remove the current contents of the bill and reform the current low incidence disabilities fund, contingent upon additional funding for this program, to add eligibility for funding for students

who take the California Alternate Assessments, and rename it to reflect the new population of students it will serve. These students have significant cognitive impairments and may comprise no more than 1% of statewide enrollment pursuant to federal law, and represent about 10% of the state's students with disabilities. Changing eligibility for this fund will start to move the state away from funding based on disability category and toward funding based on student need, while addressing some of the fiscal pressure LEAs face.

Arguments in support. The California Federation of Teachers writes, “California’s Local Control Funding Formula (LCFF), implemented in 2013, was designed to provide greater flexibility to school districts while directing additional resources to students with the greatest needs. Through its base, supplemental, and concentration grants, LCFF has played an important role in improving student outcomes and narrowing achievement gaps for English learners, foster youth, and low-income students.

However, special education remains largely outside of this framework. As a result, funding for students with disabilities has not kept pace with rising costs or increasing student needs. School districts are increasingly forced to rely on their general funds to meet federally mandated obligations, creating significant financial strain and often leading to difficult trade-offs that affect all students, including larger class sizes and reduced programming.

AB 2526 offers a thoughtful and necessary solution. By establishing a Special Education Add-On Grant within LCFF, the bill reinforces the program’s core purpose of directing resources to high-need students. The bill enables Local Educational Agencies (LEAs) and County Offices of Education to receive additional, ongoing funding based on the proportion of students with severe disabilities. Integrating special education into LCFF is a critical step toward a more complete and equitable funding system. AB 2526 closes a longstanding gap and provides sustainable, ongoing support for one of California’s most vulnerable student populations.”

Related and prior legislation. AB 1449 (Muratsuchi) of the 2017-18 Session would have added a special education grant to the LCFF for school districts, COEs, and charter schools. This bill was held in the Assembly Education Committee.

AB 2291 (Medina) of the 2019-20 Session would have required that special education funding rates be equalized to the 95th percentile, creates a funding mechanism for state support of special education preschool, establishes a high cost service allowance to provide supplemental funding on the basis of the number of students with severe disabilities, and changes the calculation of the declining enrollment adjustment for special education. This bill was held in the Assembly Education Committee.

AB 428 (Medina) of the 2019-20 Session would have required that special education funding rates be equalized to the 95th percentile after LCFF was fully funded, created a funding mechanism for state support of special education preschool, established a high cost service allowance to provide supplemental funding on the basis of the number of students with severe disabilities, and changed the calculation of the declining enrollment adjustment that it is based on school district, rather than SELPA, enrollment. This bill was held in the Senate Appropriations Committee.

AB 3136 (O'Donnell) of the 2017-18 Session would have required that special education funding rates be equalized to the 95th percentile after LCFF was fully funded, created a funding mechanism for state support of special education preschool, established a high cost service allowance to provide supplemental funding on the basis of the number of students with severe disabilities, and changed the calculation of the declining enrollment adjustment that it is based on school district, rather than SELPA, enrollment. This bill was held in the Senate Appropriations Committee.

AB 312 (O'Donnell) of this Session would require that special education funding rates be equalized to the 90th percentile after the LCFF is fully funded, and creates a funding mechanism for state support of special education preschool.

SB 1071 (Allen) of the 2015-16 Session would have required, upon an appropriation in the Budget Act, a permanent one-time adjustment to the base funding calculation for each special education local plan area to support special education and related services for three and four year old preschool children with exceptional needs.

REGISTERED SUPPORT / OPPOSITION:

Support

California Federation of Teachers

Opposition

None on file

Analysis Prepared by: Tanya Lieberman / ED. / (916) 319-2087