

ASSEMBLY THIRD READING  
AB 2526 (Muratsuchi)  
As Amended April 21, 2026  
Majority vote

## SUMMARY

Establishes a revised allocation formula for the special education low-incidence disabilities funding, contingent upon an increase in the appropriation for this purpose, by adding funding attributable to the number of students eligible to take the California alternate assessments.

### Major Provisions

- 1) Requires the Superintendent of Public Instruction (SPI), if an appropriation to add to the low incidence disabilities fund, to apportion the amount determined to the SELPA for purposes of providing special education and related services as required under the individualized education program (IEP) for each pupil with low-incidence disabilities and each pupil eligible to take the alternate assessments, as specified.

## COMMENTS

*Major provisions of this bill.* This bill proposes to 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. 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.

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

- 1) 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.
- 2) 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, and according to the Legislative Analyst's Office (LAO) demand significantly outpaces funding.

*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 Assembly 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:

- 1) *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.

- 2) *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%.
- 3) *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.
- 4) *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.

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 Assembly may wish to consider that* this kind of approach solves both of the problems noted above.

### **According to the Author**

"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."

### **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."

### **Arguments in Opposition**

None on file

## **FISCAL COMMENTS**

According to the Assembly Appropriations Committee:

- 1) Ongoing Proposition 98 General Fund cost pressures of an unknown but significant amount, likely in the millions to tens of millions of dollars annually, for the Legislature to appropriate additional funds for the low-incidence disabilities program.
- 2) The annual budget act includes funding, \$136.8 million total in fiscal year 2025-26, for low-incidence disabilities distributed according to a per-low-incidence disability student formula prescribed in statute.

## VOTES

**ASM EDUCATION: 9-0-0**

**YES:** Patel, Hoover, Alvarez, Bonta, Castillo, Garcia, Lowenthal, Pellerin, Zbur

**ASM APPROPRIATIONS: 15-0-0**

**YES:** Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

## UPDATED

VERSION: April 21, 2026

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FN: 0002691