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Funding Recommendations for Oregon's Long Term Care and Treatment Education Programs

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Introduction

The Oregon Department of Education (ODE) contracts with local educational agencies to provide an education program for students who have been placed by other state agencies in day and residential treatment facilities. The children served by these programs have a variety of therapeutic and educational needs and have experienced serious difficulties at home, in school, and within the local community. The programs serve children who require schooling in a protected environment to safeguard themselves and/or others and to allow the treatment process to extend into the school day. The goal of ODE's Long Term Care and Treatment Education Programs (LTCT) is to provide a high quality education within the therapeutic environment where the child will gain the behavioral skills to function successfully in a more mainstream non-institutional educational environment.

The 2007 Oregon Legislative Assembly directed the ODE through a budget note to work with a representative stakeholder group to conduct a study of the funding mechanism for the educational component of the LTCT programs and to offer suggestions for improvement. In August 2007, the ODE contracted with the American Institutes for Research (AIR) to carry out this work and provide a review, analysis, and report on the LTCT funding methodology. This report provides a background of the LTCT programs and a brief context for the project, describes the study approach and findings, and concludes with recommendations for alternative funding mechanisms.

Background of LTCT Programs

Eligible Programs and Students

While Oregon has an array of behavioral services and supports, only specific psychiatric day and residential programs under contract¹ with the Department of Human Services (DHS) or Oregon Youth Authority (OYA)¹ for long-term care or treatment are eligible for LTCT funding. According to the Oregon Administrative Rules (OAR 581-015-2570), programs need to meet certain criteria for LTCT funding.² Ultimately, however, "final determinations concerning the eligibility of treatment programs for education funding are

¹ The Oregon Youth Authority, an independent state department, was established in 1996 to administer youth correctional facilities and programs within a multi-tiered system of sanctions (<http://www.oya.state.or.us/index.html>).

² These criteria include: 1) either a) a letter of approval from the Office of Mental Health and Addiction Services certifying that the psychiatric day treatment program or psychiatric residential treatment facility meets standards applicable for intensive children's mental health services under OAR 309-032-1120, or b) documentation that the program provides long-term residential treatment of children placed by a state agency or designee of the state agency, 2) be operated by a nonprofit corporation or a political subdivision of the state; 3) demonstrate through client admissions, staff hiring practices, and client access to services that it meets requirements for ORS 659.150 relating to the prevention of discrimination; and 4) demonstrate through curriculum content, teaching practices, and facilities management that the constitutional requirements regarding no religious entanglement are met. (OAR 581-015-2570, (3))

at the discretion of the State Superintendent of Public Instruction” (OAR 581-015-2570, 4(b)). The ODE is faced with funding constraints, which may limit its ability to approve new programs beyond those already supported by the available funds. As a result, programs that meet the criteria defined in the OAR may not be declared eligible for LTCT educational funding.

Likewise, only certain students are eligible for LTCT educational funding. That is, various parties can place children in treatment programs, and not all children served by a given program will generate LTCT dollars in support of their education. Eligible students are those placed in LTCT programs by the DHS, OYA, or local Mental Health Organizations acting on behalf of DHS.³ Essentially, LTCT funding is intended to support districts in providing services to students who were placed in these facilities by state agencies and other entities beyond the district's control. Examples of students in these programs who do not qualify for LTCT educational funding include those placed by a school district (e.g., for special education purposes), those placed directly by their families (which is often paid for through private insurance), and out-of-state students. In the case of parental placement, the parent is responsible for the costs (including education). In the other examples, the placing district or sending state pays through an Interagency Agreement that identifies responsibilities and transfers of funds.

The issue of Medicaid introduces another layer of complexity in the LTCT eligibility process. The state's mental health system is designed to serve children on the Oregon Health Plan (OHP) or, in other words, Medicaid-eligible students only. Students who are not Medicaid-eligible do not fall under the purview of DHS, and therefore DHS would not be the placing agency for these students. However, if students are placed in residential facilities by their parents, they may eventually gain Medicaid status if DHS agrees that their needs are sufficiently severe for them to be placed in a residential setting. Once Medicaid-eligible and under the authority of DHS, these students may then qualify for LTCT education funding. Conversely, this phased-in Medicaid eligibility is not available for students in day treatment programs who are not funded through LTCT funds.

LTCT Education Formula

As noted in the introduction, the LTCT program encompasses both the education and treatment components. It is important to note that the LTCT education formula – the focus of this study – is intended only to support the costs of the educational component of these services (excluding transportation, care, treatment, and medical expenses). The ODE currently contracts with school districts and Educational Service Districts (ESDs) to provide the educational programs for LTCT students. While these entities may subsequently sub-contract with treatment providers to provide educational services, they

³ Students placed by the Department of Human Services' Target Planning and Consultation Committee are also the educational responsibility of the ODE and eligible for LTCT funds.

still bear ultimate responsibility for meeting the terms of the ODE contract and ensuring compliance with federal and state laws and regulations.⁴

ODE contracts with a total of 29 districts and ESDs to provide educational services to students through 51 treatment programs (see Appendix A). While the number of students receiving education services through the LTCT program at each site varies according to the source (a point discussed further in this report), one count – the enrollment for a designated count day in May 2007 as reported for Title I purposes – puts this figure at 918 students overall. As these appear to be the most reliable and current counts available to the study team of students served overall and by site, they are used throughout this report.

Funds provided through ODE contracts come from four revenue sources, with the state funds appropriated on a biennial (two-year) basis. Five percent of the total amount available statewide has historically been retained at the state level, to which individual providers can apply to support unexpected, emergency expenses. Exhibit 1 shows the revenue sources and the percentage contribution to the overall amount for the 2007-09 biennium. Only 7 percent of the funding comes from federal grants established by the Individuals with Disabilities Education Act (IDEA) and the Title I, Part D Neglected and Delinquent (N&D) program, with the remainder of support coming from the state.

Exhibit 1. Sources of revenues for LTCT educational programs, 2007-09

Source	Amount	%
State general funds	\$18,213,114	49.3%
State school funds (est)	\$16,015,518	43.4%
Federal IDEA funds (est)*	\$1,496,244	4.1%
Federal Title I N&D (est)*	\$1,204,188	3.3%
Total Revenues	\$36,929,064	100%**

* Federal funds are estimates based on prior year award estimates.

** Total percentage will not add up to 100% due to rounding

State LTCT revenues come from two primary sources – the state general funds and state school funds (SSF) – which are derived in different manners. The general funds are relatively fixed from one biennium to the next, adjusted only for inflation. In contrast, the SSF amount is derived through a more complex method, whereby the statewide average Net Operating Expenditure (NOE)⁵ is multiplied by the statewide average daily membership of LTCT students.⁶

⁴ Entities contracting with the ODE are also required to ensure that: a) each child who is not a child with a disability has a personalized educational plan that includes assessment, goals, services, and timelines; b) information pertaining to students and educational programs is provided to the ODE in an accurate and timely manner; c) children have opportunities to be educated in the least restrictive environment; and c) the education program is developed and implemented in conjunction with the treatment program. (Oregon Administrative Rules, OAR 581-015-2570).

⁵ The net operating expenditure is the sum of educational expenditures, divided by the average daily membership.

⁶ For the 2007-09 biennium, the SSF formula used the number of LTCT students the treatment facilities are contracted to serve, as specified through contracts with the Department of Human Services and Oregon Youth Authority. This alternative count was used, due to unreliability of the ADM data.

In contrast to these methods for generating state LTCT revenues, a different formula is used to determine state funding for the two-year contracts with each provider. The disconnect between how funds are generated at the state level in support of LTCT education contracts and the amounts of these individual contracts is explored later in the report. To explain briefly, the individual contracts are built from the ground up, by multiplying the average net operating expenditure (NOE) for each contracted district or ESD by the number of approved “slots” for each treatment facility. The term “slots” is used in this report to refer to the number of students the treatment program is contracted to serve, as specified in the contract between the treatment program and the Department of Human Services or Oregon Youth Authority.⁷

While the SSF formula described above uses the statewide average NOE, the contract formula employs the average NOE specific to the contracting district or ESD. The rationale for using different NOEs is that it may reflect the varying cost of education in different localities throughout the state.

The formula further provides differential funding for student slots allocated to the day treatment program as opposed to those designated for residential programs (referred to as a “service factor”). The number of slots for day treatment students is weighted by 1.75 and the slots for residential programs are weighted by 2.0, presumably to reflect perceived differences in the educational costs for serving such students. A single district or ESD provider may have multiple contracts, as each contract is based on individual treatment facilities within its boundaries.⁸

Exhibit 2 provides a hypothetical example of state funding for two facilities – one day treatment and one residential – within the same district. The estimated federal funds are added to the contract, based on the number of LTCT students reported under the IDEA or N&D programs (see Appendix B for a funding flowchart provided by the ODE).

Exhibit 2. Example of formula for determining the state funded portion of LTCT contract

	Service factor	Number of “slots” in each facility	Average net operating expenditure (NOE)	Estimated state funding for single year
	A	B	C	(A * B * C)
Facility A (day treatment)	1.75	18	\$6,850	\$215,775
Facility B (residential)	2.00	10	\$6,850	\$137,000

Study Context

Concerns with funding the education of students in LTCT program have existed for some time. Indeed, an LTCT Committee and a separate focus group, both comprised of representative stakeholders, were convened by the ODE in 2005 to discuss the education

⁷ In describing the formula, the Oregon Administrative Rules (OAR 581-015-2570) uses the term “average daily membership” (ADM) instead of “slots.” We refer to slots in this report to avoid confusion with subsequent uses of ADM.

⁸ The exception to this is Portland School District which submits a single contract for its eight programs.

program funding allocation. These efforts, including two joint meetings across both groups, resulted in a 2006 report that outlined two alternative pathways to changing the funding mechanism. Both pathways would result – at different speeds – in the same objectives:

- Move control of funding and generation of revenue to the resident school district responsible for the education services
- Generate revenues through the average daily membership of each program and federal IDEA funds
- Grant districts access to the state's existing High Cost Disability fund, which reimburses districts when qualified expenditures for an eligible child in special education are in excess of \$30,000 for the fiscal year.

Our discussions with stakeholder respondents for this study revealed historical and continuing concerns, which will be explored in detail in the report. At one time, the ODE served as the resident district and was the responsible agency for the education of LTCT students statewide and for complying with state and federal laws. For example, while districts and ESDs were contracted to provide services, the ODE was responsible for paying for required services in excess of the contracted budget. A former administrator noted that this sometimes led to a lack of accountability at the local level, as some contractors would sub-contract education services, thereby diminishing their ownership of these students and their direct oversight of service provision. The situation evolved and the responsibility for providing the education of LTCT students shifted from the state to the school districts (school districts may select to contract with ESDs; see ORS 343.961(3)). This shift in responsibility creates potential tension between ESDs that have contracted with the state and its member districts if the contracted funds are not sufficient. In such cases, the contracting ESD might turn to the resident district to provide or directly support the education services being provided. To date, it appears that this situation has been avoided through the use of the 5 percent set-aside.

Although the formula structure has existed for more than 20 years, some concerns have developed over time as the formula regulations were increasingly implemented with fidelity. According to one committee member for this study, and corroborated through some of our interviews, the process was generally ad hoc with final contract amounts being determined largely through negotiation. Thus, contractors perceived the formula as less problematic until the associated administrative rules were more strictly enforced approximately five years ago.

Another change was clarification from the state that the cost of facilities (e.g., classroom space) was not an allowable educational cost under the contract. As some contractors historically used contracted funds to pay rent and maintenance costs to the treatment programs for the use of space, this provision regarding facilities sometimes created a level of tension and misunderstanding between the education and treatment providers.

Both educational and treatment provider representatives noted changes in the overall context that are not fully reflected in the current formula and administrative rules. For

instance, they have observed an increase in shorter-term stays of less than 90 days, which were not recognized by the administrative rules until recently. A more pressing concern was the disconnect between the current formula and the sweeping and continuing changes in the delivery of behavioral health services and supports for children, youth, and their families, as first initiated by the Children's Change Initiative and continued with the Statewide Children's Wraparound Project. While the ultimate goal of the Wraparound Project is to create a coordinated, comprehensive system of community-based services and supports, stakeholders generally believed that the current formula for the educational component of LTCT programs was not reflective of this change and, in fact, may be fostering educational practices that are counter to this ideal.

Study Approach

As noted in the introduction, this study of the funding mechanism for the LTCT educational programs is in response to a legislative budget note specifying that this work be conducted with a representative stakeholder group. Toward this end, AIR held three stakeholder committee meetings on October 17, November 1, and November 16, 2007. Committee membership was determined by ODE and included representatives from districts, ESDs, and treatment providers who also provide educational services. The committee also included representatives from the Department of Human Services, Oregon Youth Authority, and the Department of Education. At the initial meeting, guided by AIR staff, members provided perspectives on the strengths and weaknesses of the formula and discussed overarching policy goals. During the second and third meetings, AIR presented preliminary findings and funding recommendations, to which committee members provided reactions and clarified issues.

We supplemented information gathered at these meetings with analysis of data provided by the ODE on LTCT counts and funding variations. We obtained additional perspectives through emails and phone interviews with other stakeholders, including education and treatment providers and a former state administrator.

A Conceptual Basis for Evaluating Funding Formula

An important first step in assessing any education funding formula and in offering specific recommendations for improvement is to consider the criteria against which the formula should be evaluated. At least two sets of criteria are important. The first are criteria used for evaluating education funding formulas generally as established through the language found in state constitutions, legislative proceedings, legal precedent, state policy formation, and the scholarly literature on school finance.

The second set of criteria are the overall goals and objectives set for the program and the extent to which fiscal policy provisions support or contradict them. Fiscal policy can have a strong influence on educational practice, such as where and how students are served. As

such, it is important to develop fiscal policy that promotes rather than discourages state program objectives.

Overarching school finance criteria

The first set of criteria, i.e., those against which formulas for distributing public education funding are generally evaluated, include equity, efficiency, and adequacy. The equity criterion calls for state funds supporting public education to be allocated fairly. This has usually been defined to mean that districts that face similar external circumstances (e.g., comparable size and labor markets for education professionals) and serve similar in terms of the types of students (e.g., similar percentages of students with such special needs as poverty, English proficiency, and special education) should be treated approximately the same by the state in terms of the amount of funds allocated. Similarly, to the extent that they are systematically different along these dimensions, the amount of funding districts receive is generally adjusted accordingly and in a comparable fashion. In terms of the state's LTCT formula, the expectation under the criterion of equity would be that contractors serving comparable numbers of LTCT students would receive comparable levels of support from the state.

Several general principles fall under the efficiency criterion. First, the amount of labor and resources involved in implementing the funding formula should be the minimal amount needed to ensure accountability. The greater the percentage of resources at the local level that are needed to receive and account for funds, the less resources that are left to actually provide services to LTCT students.

In the case of LTCT funding, some data collection that is occurring under federal and state regulations may be redundant, excessive, or collected in a manner that does not allow for efficient and meaningful analysis and accountability. In other cases, needed data elements are not being collected by the state. In short, reporting requirements for LTCT contractors should be carefully reviewed to determine the extent to which data (e.g., the types of students served, what is being provided, and educational outcomes) can and will be used to ensure local accountability. To the extent that the information is not utilized, the reporting requirements should be scaled down or eliminated. . On the other hand, some vital accounting, such as the number of children being served by each site reported on a regular cycle with uniform procedures followed by all sites, is essential to a basic understanding of what is occurring within the system.

Beyond the need for uniform, reliable, and regular counts of students served by LTCT site, other basic efficiency criteria include an understanding of the nature and extent of the education services children are receiving while in LTCT. While measures such as the student to staff ratio, hours per day, and days per year appear to be included in annual reports submitted to the state, it is unclear that these data are reported in a uniform manner, or that they are reviewed and compared against clearly delineated standards. In this sense, as currently collected, these data are not of much use in promoting the thorough and efficient provision of LTCT education services.

Another important efficiency criterion is education outcomes – i.e., are the funds, and resulting education services, producing the expected student outcomes. Ultimately, efforts to bolster the efficiency of the system will require information about the education results of students participating in the LTCT system.

Also, the method and timeliness of allocating the funds should bolster local efficiency in the provision of services to the greatest extent possible. An LTCT concern in this regard is the need for greater predictability and timeliness in funding to assist local sites to plan for the efficient provision of services in the upcoming year to the greatest extent possible.

A last overarching funding criterion is adequacy: are the funds allocated through the system sufficient to allow specified outcomes to be met? Without better outcome data in regard to what LTCT students are accomplishing as a result of the education services being provided to them, it is difficult to assess the extent to which the funds received are producing desired outcomes. Short of this, however, adequacy can be considered in terms of whether comparable inputs are provided to LTCT students across the state that are considered sufficient to meet their education needs as determined through professional judgment. For example, what do educators believe is appropriate and necessary to provide appropriate education services to LTCT children in relation to all other children within the public education system?

Findings

This section of the report describes some of the key findings of the study team as a prelude for the suggestions for improvement that will follow. In summary, this section of the report draws upon what we heard from committee members, noted in our interviews, observed through data analysis, and concluded from our knowledge and prior work regarding categorical program funding. From these sources we summarize what appears to work fairly well in regard to the current LTCT education formula and what appears to be problematic and potentially in need of change. Specific recommendations for change follow this section on findings.

As described above, the formula currently allocates the majority of funds to participating districts and ESDs based on a specified number of “slots,” or children to be served under the contract. This number of slots is first multiplied by a service weight of 1.75 for day treatment and 2.0 for residential programs with the product subsequently being multiplied by the local Net Operating Expenditure (NOE) amount associated with each contracting district or ESD. To summarize, the current formula is:

$$((\# \text{ of residential slots} \times 2.0) + (\# \text{ of day treatment slots} \times 1.75)) \times (\text{the local NOE})$$

The assumed rationale for the higher service weight to fund educational services for students in residential versus day treatment (2.0 versus 1.75) is that the former treatment placement is more costly overall. Because the costs for residential treatment are higher on

average than for a student in day treatment, the assumption is that the educational component of the services associated with these two settings will also differ.

In addition, using the local NOE as the base for determining the allocation of state LTCT funds presumably has the advantage of allowing these allocations to vary according to differences in local cost. That is, it is likely more costly on average to provide education services in Portland than in Pendleton. The local NOE is presumably used as a proxy representation of this cost variation.

Below, we discuss some of the perceived strengths and weaknesses associated with the current formula. As an introduction to this discussion, it is fair to say that the majority of respondents' concerns with the current formula outweigh its perceived advantages.

Formula/system strengths

The overall service system appears well-developed. Oregon appears to have developed considerable capacity, with a strong cadre of providers to serve children with LTCT needs. Given the severity of children who need support services of this type, a strong array of options for serving them is an important asset for the state.

Students are not required to be identified for special education to qualify for LTCT educational funds. While this may seem obvious to Oregon readers, in some states children in need of care in a LTCT-type facility are only placed there if it is first determined that they are eligible for special education. In such situations, considerable pressure can be placed on local districts to declare a child in need of long-term care as eligible for special education. For example, in Oregon, only approximately 60 percent of LTCT students are in special education. Separating consideration of the need for LTCT from the need for special education allows LTCT services to be provided on a timely, as needed basis, and reduces pressures to inappropriately place students in special education.

Local districts are ultimately responsible for the provision of educational services for children in LTCT. Oregon regulations stipulate that the district in which the facility is located is responsible for providing education to children in LTCT.. While this provision may not always be seen as fair to districts with a high number of treatment facilities, it is more likely to forge local links for students, facilitate their return to neighborhood schools and home communities, and remove ambiguity regarding what agency is ultimately responsible. For example, in California, the responsibility for educating children in group homes was found to be sufficiently unclear that a report commissioned by the state to evaluate the state system, was titled, "Education of Foster Group Home Children, Whose Responsibility Is It?" (Parrish et al., 2001).

The current funding system is seen as fairly stable. Because current contracts are funded on a specified number of "slots" and are awarded on a two-year basis, they allow for advance planning over this period and largely buffer against more rapid changes in the actual number of children served. If the number of children served drops below the

number specified in the contract during the two-year cycle, generally funds are not taken away. Because the program is still contractually obligated to be staffed and able to serve at full capacity as needed, the operating costs for a program may not decline even when enrollment drops. However, if the number of students served rises above the approved slots, contractors are allowed to apply for supplemental funds (but it is generally understood that programs will accommodate a reasonable level of increase within the existing budget).

The system is seen as less stable, however, at the start of the biennium cycle. This may be especially problematic when notices of new contract amounts are made after local hiring and retention decisions must be made. Children in LTCT have very specialized requirements, and it is important that all staff working with these children have training, experience, and understanding of their unique needs. Last minute hiring of staff to serve this population can be especially disruptive and problematic. Thus, when continuation contract amounts are unknown prior to the time for extending staff contracts, some of these highly specialized staff may be at least temporarily terminated and are not easily replaced when it becomes clear that contract funds are available and that their services will be needed through the next biennium.

The system, at least on the surface, is fairly straightforward and easy to understand. While there is far from universal acceptance of the elements of the formula (as will be described below), conceptually it is fairly straightforward, i.e., the number of slots multiplied by the service weights multiplied by the local NOE determines the vast majority of the contract amount. While contracting districts may not agree with what they receive under this formula, its origins are fairly clear and straightforward. This is a clear advantage in relation to systems found in some states where the rationale for what one contractor receives in relation to another is unclear, or in some instances, appears to be non-existent.

Formula/system weaknesses and concerns

An overarching concern is the lack of a rational basis for the local formula. Upon initial examination, the LTCT formula appears rational. That is, the number of slots (which is assumed to relate to the actual number of students served) is multiplied by weights based on the different costs of residential versus day treatment services, which is multiplied by the Net Operating Expenditure for each district (or ESD) presumably to reflect variations in the local cost of doing business. However, when examined more closely, the rationale behind each of these elements breaks down.

First, a major problem with the current system is that the state does not have reliable, accurate counts of the number of LTCT children receiving education services by site or statewide. Although the Oregon Administrative Rules require that the contractors submit timely and accurate information on LTCT students to the state, the numbers of students vary widely by data source, and some are fraught with errors. Indeed, we were informed that one provider refuses to submit such data. While inconsistencies might be expected

across data sources and reporting methods, there is considerable variation among the sources, ranging from 918 for an enrollment count taken on a single day in May 2007 to 1,212.4 for the counts of DHS/OYA students used to derive contracts to 1,322.7 for the annual average daily membership (ADM) for 2006-07. In some cases, residential facilities show a higher ADM than what is physically possible. Because of this lack of reliable data, we do not know the degree to which the number of slots for which a given site receives funding aligns with the number of students actually served.

Thus, while the slot concept is not necessarily flawed, adjusting the number of approved slots for which a given program receives funding appears contingent upon the DHS/OYA agreement process and somewhat unclear. Exhibit 3 compares the number of slots by site with the best data the state currently has in regard to the number of children actually enrolled on a given day. Column C of this exhibit shows the count of LTCT children served on May 7, 2007, for the purpose of the Title I, Part D, N&D reporting requirements. Because these counts are based on a single day, the numbers shown in Exhibit 3 should be considered more illustrative than reflective of the actual average operating capacity of these sites. It is possible that this particular day is not representative of what occurs throughout the school year, but on this day at least the total number of funded slots is more than 25% greater than the number of children enrolled in these programs. While some sites show more students being served than slots being funded, most show just the opposite, with some sites showing substantially more students being funded than served.⁹

⁹ The large difference between slots and the Title I count observed for Clackamas ESD is due to an agreement with the state, in which the slots have stayed at prior operating levels to buffer against the considerable decline in enrollment.

Funding Recommendations for Oregon's LTCT Education Programs

Exhibit 3. LTCT Student Counts and Funding by Contractor and Program

District/ESD A	Program Name B	Title 1-D Count for May 7th 2007 C	Slots from 2007-09 funding file D	Est 2007-08 NOE E	State contract amts, estimated 2007-08 (single yr) F	Total biennium estimated allocations 2007-09 (including fed \$) G	State contract \$ per Title I count H (= F/C)	State contract \$ per slot I (= F/D)	TOTAL CONTRACT \$ per Title I count J (=G/C)/2
Ashland SD 5	Lithia Springs School	30	31.00	\$ 6,938	\$ 430,156	\$ 935,067	\$ 14,339	\$ 13,876	\$ 15,584
Ashland SD 5	SOCSTC	13	11.98	\$ 6,938	\$ 145,455	\$ 345,099	\$ 11,189	\$ 12,141	\$ 13,273
Central SD 13J	Poyama Day Treatment	14	17.00	\$ 6,566	\$ 195,339	\$ 474,685	\$ 13,953	\$ 11,491	\$ 16,953
Central Point SD 6	SOCSTC Boys Program	9	11.00	\$ 6,518	\$ 143,396	\$ 307,174	\$ 15,933	\$ 13,036	\$ 17,065
Central Point SD 6	SOCSTC Hanby Middle School	New Program	10.00	\$ 6,518	\$ 130,360	\$ 265,920	n/a	\$ 13,036	n/a
Clackamas ESD	Merrick School	42	63.00	\$ 6,485	\$ 817,110	\$ 2,352,143	\$ 19,455	\$ 12,970	\$ 28,002
Dallas SD 2	Polk Adolescent Day Treatment	16	15.00	\$ 6,068	\$ 159,285	\$ 366,177	\$ 9,955	\$ 10,619	\$ 11,443
Douglas ESD	Riverside Center	23	25.74	\$ 6,759	\$ 304,459	\$ 689,986	\$ 13,237	\$ 11,828	\$ 15,000
Eugene SD 4J	Stepping Stone School	16	16.00	\$ 6,906	\$ 220,992	\$ 499,052	\$ 13,812	\$ 13,812	\$ 15,595
Grants Pass SD 7	Family Friends Day Treatment	14	17.10	\$ 6,520	\$ 195,111	\$ 451,396	\$ 13,937	\$ 11,410	\$ 16,121
High Desert ESD	Cascade Child Center	6	15.33	\$ 6,261	\$ 167,967	\$ 374,897	\$ 27,995	\$ 10,957	\$ 31,241
Hood River Co. SD	Klahre House School	18	23.00	\$ 8,161	\$ 375,406	\$ 804,592	\$ 20,856	\$ 16,322	\$ 22,350
Klamath Falls SD	Klamath Youth Development Center	30	29.86	\$ 7,158	\$ 374,041	\$ 845,517	\$ 12,468	\$ 12,526	\$ 14,092
La Grand SD1	Grande Ronde Child Center	7	10.30	\$ 7,162	\$ 129,095	\$ 298,017	\$ 18,442	\$ 12,533	\$ 21,287
LBL ESD	Old Mill Center	5	4.42	\$ 6,482	\$ 50,138	\$ 110,666	\$ 10,028	\$ 11,343	\$ 11,067
LBL ESD	Childrens Farm Home	51	88.15	\$ 6,482	\$ 1,142,777	\$ 2,485,454	\$ 22,407	\$ 12,964	\$ 24,367
Lincoln Co. SD	Linalla Day Treatment	11	12.87	\$ 7,109	\$ 160,112	\$ 358,728	\$ 14,556	\$ 12,441	\$ 16,306
Medford SD 549C	SOCSTC Day Treatment	6	7.00	\$ 6,767	\$ 94,738	\$ 199,924	\$ 15,790	\$ 13,534	\$ 16,660
Multnomah ESD	Wynne Watts/Day Tx	34	42.00	\$ 7,989	\$ 671,076	\$ 1,473,494	\$ 19,738	\$ 15,978	\$ 21,669
Multnomah ESD	Kerr Center		10.45	\$ 7,989	\$ 146,099	\$ 298,050	n/a	\$ 13,981	n/a
Newberg SD 29J	Chehalem Youth and Family Services	20	20.00	\$ 6,899	\$ 275,960	\$ 630,100	\$ 13,798	\$ 13,798	\$ 15,753
North Wasco SD	Mid Columbia Child and Family Center	7	11.99	\$ 7,795	\$ 163,559	\$ 367,033	\$ 23,366	\$ 13,641	\$ 26,217
NW Regional ESD	Albertina Kerr/P.A.C.E.	28	40.00	\$ 6,935	\$ 554,800	\$ 1,267,415	\$ 19,814	\$ 13,870	\$ 22,632
NW Regional ESD	Lifeworks (Old OHSU) Youth Childrens Day	20	20.00	\$ 6,935	\$ 182,044	\$ 584,088	\$ 9,102	\$ 9,102	\$ 14,602
NW Regional ESD	Levi Anderson Learning Center	60	52.00	\$ 6,935	\$ 721,240	\$ 1,690,474	\$ 12,021	\$ 13,870	\$ 14,087
NW Regional ESD	Lifeworks (Old OHSU) Youth Childrens Day	13	12.87	\$ 6,935	\$ 156,194	\$ 365,530	\$ 12,015	\$ 12,136	\$ 14,059
Pendleton SD 16R	Homestead Youth and Family Services	29	32.00	\$ 6,684	\$ 427,776	\$ 917,746	\$ 14,751	\$ 13,368	\$ 15,823
Portland Public Schools	Portland Dart Schools	204	274.30	\$ 8,444	\$ 4,510,532	\$ 9,745,730	\$ 22,110	\$ 16,444	\$ 23,887
Portland Public Schools	Boys & Girls Aid Society/John's Landing School		28.00	\$ 8,444	\$ 472,864	\$ 1,216,261	n/a	\$ 16,888	n/a
Portland Public Schools	Janus-Taylor & Clackamas		16.00	\$ 8,444	\$ 270,208	\$ 551,200	n/a	\$ 16,888	n/a
Portland Public Schools	Janus Buck House		13.00	\$ 8,444	\$ 219,544	\$ 447,850	n/a	\$ 16,888	n/a
Portland Public Schools	Morrison Child & Family Services, Breakthrough		20.00	\$ 8,444	\$ 337,760	\$ 708,912	n/a	\$ 16,888	n/a
Portland Public Schools	Morrison Child & Family Services, Hand In Hand		21.10	\$ 8,444	\$ 311,795	\$ 664,479	n/a	\$ 14,777	n/a
Portland Public Schools	Nickerson Center ADTP		21.10	\$ 8,444	\$ 311,795	\$ 667,323	n/a	\$ 14,777	n/a
Portland Public Schools	Parry Center for Children		38.58	\$ 8,444	\$ 651,539	\$ 1,403,040	n/a	\$ 16,888	n/a
Portland Public Schools	Parry Center Day Tx		15.52	\$ 8,444	\$ 229,339	\$ 467,831	n/a	\$ 14,777	n/a
Portland Public Schools	Parry Center SCIP		12.00	\$ 8,444	\$ 202,656	\$ 413,400	n/a	\$ 16,888	n/a
Portland Public Schools	Rosemont School		52.00	\$ 8,444	\$ 878,176	\$ 1,862,514	n/a	\$ 16,888	n/a
Portland Public Schools	White Shield Home		20.00	\$ 8,444	\$ 337,760	\$ 711,757	n/a	\$ 16,888	n/a
Portland Public Schools	Wildflowers		7.00	\$ 8,444	\$ 118,216	\$ 241,150	n/a	\$ 16,888	n/a
Portland Public Schools	Clinton St.-Imani		10.00	\$ 8,444	\$ 168,880	\$ 390,013	n/a	\$ 16,888	n/a
Rynolds SD 7	Center for Continuous Improvement/CCI	5	12.00	\$ 8,038	\$ 192,912	\$ 401,341	\$ 38,582	\$ 16,076	\$ 40,134
Rynolds SD 7	Edgefield Childs Center	15	21.00	\$ 8,038	\$ 337,596	\$ 714,326	\$ 22,506	\$ 16,076	\$ 23,811
Salem,Keizer SD	In-Program School	11	6.00	\$ 7,418	\$ 89,016	\$ 198,377	\$ 8,092	\$ 14,836	\$ 9,017
Springfield SD 19	Child Center	38	39.00	\$ 7,124	\$ 486,213	\$ 1,143,228	\$ 12,795	\$ 12,467	\$ 15,042
Springfield SD 19	SCAR/JasperMountain Center	14	24.00	\$ 7,124	\$ 341,952	\$ 764,166	\$ 24,425	\$ 14,248	\$ 27,292
Springfield SD 19	Safe Center	16	8.00	\$ 7,124	\$ 113,984	\$ 238,217	\$ 7,124	\$ 14,248	\$ 7,444
Three Rivers	SOASTC	24	29.00	\$ 6,475	\$ 375,550	\$ 803,301	\$ 15,648	\$ 12,950	\$ 16,735
Tigard Tualatin SD 23J	Cordero	10	11.00	\$ 7,028	\$ 154,616	\$ 342,796	\$ 15,462	\$ 14,056	\$ 17,140
Umatilla-Morrow ESD	Pendleton Academies	36	35.00	\$ 7,325	\$ 512,750	\$ 1,121,731	\$ 14,243	\$ 14,650	\$ 15,580
Willamette ESD	Metsker Heights Alternative School Program	4	10.00	\$ 7,134	\$ 142,680	\$ 311,709	\$ 35,670	\$ 14,268	\$ 38,964
Statewide		899	1,119.36		\$ 15,792,486	\$ 35,543,346	\$ 17,259	\$14,108	\$ 19,455
Statewide (Excluding records that are missing Title I count)					\$ 15,516,027	\$ 34,979,376			

Second, while the number of slots is said to represent each treatment site's capacity to serve children, the lack of accurate count data it makes it difficult if not impossible to determine at this time how well the number of slots funded for each site aligns with the average number of children actually being served. We recognize that this is a highly transitory population, and even though the program is labeled "long term care," it is not necessarily the intent of the program to keep students long term and increasingly this is not the case for LTCT students.

Thus, although a site has been allocated 50 slots (through agreement with the DHS or OYA) based on the rationale that they should be prepared to serve up to 50 students on any given day, the actual number of students enrolled may drop to a much lower level on a given day. When this occurs, the site's costs stay virtually the same because they must maintain the facilities and staff to serve up to 50 students. In this sense, the slot concept makes sense. A site needs to be ready to serve up to 50, and it is expected that on most days of the year its caseload will be close to this level.

The conceptual underpinnings of this approach breaks down, however, when there is not a fairly clear relationship between the number of funded slots and the average number of children served throughout the year. The funding approach is efficient if a site funded for 50 slots serves an average number of students over a two-year period that is close to 50. Compare this to a site funded for 50 slots over the last two-year contract period that did not serve more than 35 children on average during the full two-year period. If a slot type allocation system is to work efficiently, it is essential that the slots funded have some reasonable relationship to the number of students actually served. To establish this relationship and to update it as needed, the state needs to compare the number of slots funded to the actual number of children being served over time.

A third area of breakdown in terms of the rationality of the current system is in the residential and day treatment service weights. While is undoubtedly true that, on average, the total cost of residential care is substantially greater than day treatment, our stakeholders uniformly agreed that the education services these two populations of students receive are not systematically different. The general consensus was that the weighting differential applied to LTCT education funding (2.0 for residential and 1.75 for day treatment) does not make sense and should be removed.

Beyond this, however, even if all LTCT students, day treatment and residential alike, were funded at a weight of 2.0 for the educational services they receive, the underlying basis for this weight is unclear. We are aware of no evidence that either of these two weights is based on any analysis or careful consideration of the cost of providing education services to LTCT children. Therefore, the weights are likely more arbitrary than rational in their origin.

Using NOE as the base of funding for the LTCT formula is the fourth concern regarding a rational basis. The NOE reflects variations in total education spending by district (or ESDs), which may or may not correlate with variations across contractors in the cost of providing education to LTCT programs. In other words, it may be more expensive for a district with a low NOE to provide educational services to LTCT students.

While NOEs may be greater on average in the higher as opposed to lower cost areas of the state, it is also possible that two contractors facing nearly identical labor market costs (and indeed which are serving sites very close to each other) can show very different NOEs. For example, the NOE used to fund one program is \$700 lower per student than the NOE for funding nearby programs under a different contractor (some which are a mere 10 miles away). As these two neighboring contractors likely face comparable costs,

it is unclear why the funding they receive to serve LTCT students should vary based on how much their districts or ESDs elect, or are able, to spend on non-LTCT students as reflected in their respective NOEs.

Related to the lack of a rational basis of the LTCT formula, equity of state funding is also a concern. Due to the lack of reliable counts of students served by program, it is not possible to fully assess the magnitude of this problem. However, due to some of the idiosyncratic elements of the current formula, as described above, even the amount of state funding allocated per slot varies fairly substantially across sites. As shown in Exhibit 3, this amount varies from \$16,444 to \$9,102 across sites (as shown in Column I). However as these are the allocations per slot, this degree of variation is per hypothetical rather than actual student.

Variation in the revenues received per student served is a much better indication of the equity of the system overall. Again, without fully accurate and reliable counts of students served, it is difficult to measure the degree of inequity within the system with a high degree of confidence. However, the best count data we have, i.e., the Title I count from May 2007, suggests substantial disparities in funding. These data show a funding high of \$38,582 per student served compared to a low of \$7,124 (Column H). It is hard to know how much credence to place in this vast range of variation, but the disparity gap of over 5 to 1 in funding that these data imply indicates the importance of having accurate counts of the number of students actually being served on a regular and ongoing basis.

Equity concerns also extend to variations in the amount of services provided, i.e., in areas such as staffing ratios, as well as the number of calendar days and hours of instruction. Variations in the levels and intensity of services received by LTCT students across the state were raised as a concern in our discussions with stakeholders. The 2007-08 service plans submitted by each contractor to the ODE reveal wide variations in such critical service dimensions as the number of instructional days, where 10 sites reported instructional years that exceed 200 days as compared to 14 sites reporting instructional days of 180 days or less. The overall range of variation across all sites for which we obtained service plans extends from 175 to 240 days per year. The number of instructional hours per day ranged from eight sites reporting six hours per day or more to eight sites reporting four hours per day or less. At the extremes, one site reported providing 2.25 instructional hours per day on average, while several others reported 6.5 hours per day. Standardizing the information by multiplying the number of hours and instructional days in a year shows a difference of 3 to 1 across programs.

Another important service indicator, the number of students per staff member, ranges from three or less at 10 sites as compared to six or more at seven sites. However, as the instructions for these service reports were somewhat ambiguous leading to variations in reporting (e.g., some sites reported explicitly including non-teaching staff in their ratios; for others, it was not clear), these data should not be considered as fully reflective of the reality of what is occurring across the state. It seems likely that true variation in the LTCT instructional services, which have not previously been scrutinized in this fashion, is somewhat less than what is reflected in these reports. However, these data clearly add

credence to expressed concerns about substantial service variations across the state and provide further evidence for the need for an LTCT funding formula tied to instructional service standards.

Interestingly, prior contracts included language that required contractors to provide an education program for all children in the LTCT facility for “at least the minimum number of days or hours as stated in” the standards for public elementary and secondary schools (OAR Chapter 581, Division 22). This explicit language was softened in the current 2007-09 contract to require an education program that complies with this OAR and the federal special education law (IDEA) “to the extent appropriate given the student’s anticipated length of stay.” Furthermore, the current contract notes that the “Contractor will ensure the instruction does not replace therapeutic or other activities that are normally part of the care or treatment program,” indicating that therapy time takes precedence over education. While these provisions appear to clearly imply that the primary purpose of these placements is to provide intensive therapy and that individual students have varying therapeutic needs, they call for adjustments as needed in the amount of time that may be available to provide education services to individual students. However, this contract language does not appear to justify the considerable range in education provision reported on average in service plans across sites.

Related to this issue, treatment providers described increased treatment costs associated with their programs when educational providers shorten the instructional day to accommodate budget shortfalls. While unclear how often this practice occurs, it nonetheless may put an unfair burden on treatment providers to arrange for treatment staff to attend to students during what should be instructional time.

Overall adequacy of funding under the current formula is also open to question. Based on the standard-of-service model described in more detail in the following chapter of this report, we estimate an annualized, standardized cost of \$21,592 per student as adequate funding for the provision of educational services to children in LTCT. This estimate excludes facilities costs which the state has determined should not be attributed to LTCT education. This estimated cost compares to what appears to be an average current total allocation from all sources per student served (based on a headcount in May 2007) of \$19,455. Again, lacking a complete and accurate count of students, this latter number must be considered the best approximation of current revenues per student served we can provide at this time.

The basis by which funds are generated at the state level to support LTCT education services statewide is different from how local LTCT funding is determined. In addition to what appears to be the need for supplemental support to ensure adequate provision system-wide and a substantial improvement in the equity of the current system of distribution, it appears that there is an additional adequacy of funding problem at the state level for this program. As noted above, state LTCT funds are generated on a different basis than is used to determine how much will be included in the contract for each local provider. Therefore, it is not surprising that the amount of LTCT funds at the state level do not always align with what is contractually called for at the local level. To illustrate

this point, the estimated total LTCT funding available for the 2007-09 biennium (including state and federal revenues) is approximately \$36.9 million, whereas total estimated local contracts amount to \$37.6 million.

The state is also required to set aside 5 percent of its total allocation to allow it to respond to unusual and unanticipated conditions at local sites. This retention results in an even greater deficit between total local obligations (\$37.6 million) and the funds available to directly support contracts (\$35.2 million).

Another concern with the current formula is that it is not tied in any clear way to the state's overall education funding system. Education funding in Oregon is fragmented across several dimensions, with little to no linkage between the K-12 funding and preschool, ESDs, and regional services. This seems especially problematic for LTCT students. As they are clearly a category of K-12 students with special needs, it would seem that funding for these students would best be tied to the same kinds of funding weights within the overall system that are used to provide additional fiscal support to students in special education, in poverty, and/or who are English language learners.

Questions were raised about equality in access to LTCT funds across the state. It was noted that the number of facilities providing LTCT across the state has not expanded appreciably over the past 20 years and that similar programs for children with comparable needs do not generate LTCT funds. The reasons for this appear to be two-fold.

First, districts and programs throughout the state may not be aware that the state has an application process for becoming an approved LTCT provider. In addition, when the application process is known and a submission is made to the state, final determination of eligibility for education funding is at the discretion of the State Superintendent of Public Instruction. Second, even when the ODE receives an application that meets the criteria for eligibility, it is constrained by its authority to spend state dollars. If supplemental LTCT funds are not available, it may not be possible to approve the program. While this seems fiscally responsible, it raises questions about equity in access to funding for districts facing LTCT service needs across the state.

Another stated equity concern is that children who are privately placed in LTCT facilities do not generate public education funding from the state during the time of these placements. It seems inappropriate that these privately placed children do not receive public education financial support of any kind from the state during the period of their LTCT placement.

Stakeholders expressed the need to place greater emphasis on prevention and remission avoidance. A general concern was raised that some LTCT placements might be avoided with better prevention and pre-referral services in place locally. Along with the need to adequately fund the education component of LTCT, stakeholders also emphasized that the overall system of LTCT would be made more efficient to the extent that children could be served within in their home communities and neighborhood schools.

Supplementing mental health services and screening in neighborhood schools was proposed as one cost-effective way of reducing pressures on LTCT over time.

In addition, to minimize re-mission, it seems important to provide some form of support as students transition from LTCT facilities to local schools. Given the difficult circumstances that generally lead to students being placed in LTCT and the complexity of needs of these children, stakeholders believed that efficiency gains could be realized from investments in school-based transition services for students leaving LTCT. With such transition services in place, committee members expressed the opinion that LTCT students could be returned to their local communities and schools in a more timely fashion and that transition services would be effective in reducing possible re-entry into the LTCT system.

Concerns were also raised about educational outcomes for LTCT students, who are generally below grade level. These concerns are related to the data above that show considerable variation in the number of instructional hours as well as a lack of year-round schooling for a population that generally needs intensive educational services. The safe and regulated environment that LTCT provides may be the best chance many of these children have to make real academic progress, which can play an important role as they transition to neighborhood schools. However, the service variations observed across the programs and the need to balance the treatment and education components may result in students not making meaningful education progress while in LTCT or even worse, in them falling further behind their peers. Over time, it seems important for LTCT data collection to include information regarding the education progress made by students while in LTCT.

Recommendations

This final chapter of the report offers specific recommendations for improvement in the education component of LTCT funding, as requested in the legislative budget note calling for this study. With the ideals of equity, efficiency, and adequacy in mind, we propose that future funding for the LTCT system be based on reasonably accurate counts of students served at each site and the cost of providing a specified combination of education resources, e.g. specified student to educator ratios, a uniform school day,¹⁰ and length of school year. A method for deriving these funding amounts is illustrated in the discussion of a cost model for LTCT services below.

First, however, the second set of considerations in evaluating fiscal policy beyond the general school finance principles outlined above (equity, adequacy, and efficiency) is the identification and delineation of the goals of the system. What are the overall education goals for children in Oregon and how do LTCT education services fit into this larger picture? Whatever funding provisions the state adopts for LTCT, in addition to meeting the criteria described above, they should be designed to foster and support the state's

¹⁰ While the cost model proposed in this report does not specify hours of instruction per day, it implies a full day of instruction through the use of compensation for full-time equivalent staff.

overall goals for LTCT, as well as larger goals for educating and providing for the welfare of the children of the state.

Overall, it appears that the state is taking steps to minimize the amount of time that children receive educational services outside their neighborhood school and home community. With these goals in mind, while we want to ensure an overall equitable, efficient, and adequate LTCT education system, it also seems important to consider pre-referral intervention options that will keep children out of LTCT to the greatest extent possible, as well as transition funding so that students may receive the ongoing support they need to move out of LTCT and back to mainstream schools and home communities as quickly and successfully as possible.

Desired Attributes of a LTCT Funding Formula

In conjunction with the stakeholder committee formed for this project, we propose that the LTCT funding system should be:

- Data driven – The system and the amount received by each site should be based on consistently reliable counts of the number of children served at each site within the system. This data orientation should bring predictability and stability of funding, and should also lead to transparency in terms of the amount of funding that each site receives and why.
- Rational – The basis for the amount allocated to local sites for the provision of LTCT services should be clearly stated, understood, and tied to the service needs of LTCT children. Furthermore, the amount of LTCT funding appropriated at the state level should be clearly linked to these local funding commitments.
- Tied to the state's overall K-12 funding model – The status of LTCT children as members of the state's overall public education system should be emphasized and reinforced by linking LTCT funding to the overall state public education funding system.
- Designed to foster efficiency – To the greatest extent possible, sites should be notified of the funding to be received in the subsequent year sufficiently in advance to allow the preparation and planning needed to maximize the efficiency of LTCT education services to the greatest extent possible. Secondly, given that the overall benefit to children could be enhanced through the provision of LTCT services in such alternative settings as neighborhood schools, sufficient flexibility should be built into the system to foster this. Funding should also be incorporated into the system to foster successful transition out of segregated LTCT care as soon as this meets the needs of the child.

A Cost-Based Funding System

With the objectives above in mind, we developed a cost-based model for allocating funds to contractors built upon specific standards of service. The primary purpose of this model is to determine a funding weight that reflects a standardized cost of educating LTCT

students which can then be applied to the number of students actually served and an appropriate base amount.

Model Specifications

In the first step, we estimated the cost of each individual LTCT site based on the standards of service specified by the stakeholder committee assembled for this study and as described below. As each program can vary in scale, and therefore cost, it may be more reflective of actual costs to derive these estimates by individual program and aggregate to the state level. (Some determination may need to be made, however, as to whether programs are small by choice or through necessity. If small by choice, estimating aggregate costs at the contractor level may encourage consolidation.) Toward this end, we asked the committee to make professional judgments about appropriate instructional staffing for educating LTCT students. Based on their knowledge and experience, the committee determined that different group sizes of LTCT students required a different number of adults to provide education and ensure a safe environment (shown in Exhibit 4). Given the intensive educational and behavioral needs of LTCT students, the committee further specified that each class should not exceed 10 students.

Exhibit 4. Number of instructional staff by group sizes, as determined adequate by the study committee

Number of LTCT students	Number of FTE* teachers	Number of FTE *paraprofessionals
1	1	-
2 – 8	1	1
9 – 10 (with a maximum of 10 per class)	1	2

* FTE: Full time equivalent

These staffing configurations generated a certain number of teachers and paraprofessionals, depending on the overall numbers of students served (using the May 2007 Title I counts) by site, to which the statewide average compensation for those personnel in 2006-07 school year was applied, with salaries adjusted by a 3.1 percent cost of living adjustment (as applied to the 2007-09 biennium amounts).¹¹ As described earlier, available data on the number of students served are considered largely unreliable. While average enrollment over the year is needed as the basis for estimating funding under the model, we use the May 2007 Title I figures as proxy estimates. We acknowledge that this single day count may not be reflective of the variations experienced by these facilities.¹²

¹¹ The statewide compensation figures used in the cost model includes salaries, health insurance, and retirement benefits paid to the Public Employees' Retirement System. Separate estimates were used for teachers and paraprofessionals.

¹² The May 2007 Title I counts do not provide site-level information for individual Portland School District LTCT programs. Alternatively, we prorated the number of slots for each program so that the sum equaled the total Title I count for Portland.

As described earlier in the findings, there is considerable variation in the number of instructional days per year across programs. While some programs provide summer school to all students, others may provide it only to special education students if required by their Individualized Education Programs. Given the concern expressed by stakeholders that LTCT students often perform below grade level and the fact that the instructional time may be limited due to the treatment services, committee members believed it was essential that the model should support year-round services for all LTCT students.

To accommodate the need for year-round services, we adjusted the school-year salaries (excluding health and retirement benefits, which we assume are fixed costs) used in the model above upwards by one-third. We also applied multipliers to the instructional personnel cost to account for administration and non-personnel expenditures. Administrative expenditures would include personnel to oversee the instructional program (e.g., program principals or district administrators) and provide clerical support; the non-personnel multiplier would reflect spending on textbooks and other instructional supplies. Without consistent information on these costs for the LTCT programs, we derived multipliers from special education spending data from the national Special Education Expenditure Project (SEEP) (Chambers, Parrish, & Harr, 2002) for the purpose of increasing our program cost estimates to account for these factors.

The statewide sum of the estimated education costs – including instructional, administration, and non-personnel – for each of the 47 programs¹³ was divided by the total number of students included in the model to derive an average cost per student served: \$21,592.

Funding Weight to Derive Statewide Funds

In the second step, we generated a funding weight that would reflect this cost of serving individual LTCT students. An important consideration in this calculation is defining an appropriate base to which the multiplier can be applied for funding purposes. We believe that the base funding amount per student (\$4,500 in 2007-08) used in the formula for generating the general purpose education grant, to which weights for special education students, English language learners, and students in poverty are applied, is the most appropriate basis for LTCT funding. This conceptual link to the overall education funding formula emphasizes that these students are public school students with special needs.

¹³ This figure is lower than earlier number of programs (n=51), as the cost model combined certain programs that operate on the same campus. The following programs were consolidated into three: 1) Wynne Watts and Kerr Center; 2) Perry Center Residential and Day Treatment; and 3) Salvation Army White Shield and Salvation Army Wildflowers. The model also does not include SOASTC Coastline in North Bend which is a new program.

In addition, this base amount is adjusted in the general purpose formula for each district according to a teacher experience factor.¹⁴ This adjustment could also be incorporated into LTCT funding to reflect cost differentials across different localities. We believe this is a better approach to adjusting for local costs variations than the NOE, as used in the current LTCT formula, as it is consistent with cost adjustment decisions that have been made and are in force in the state for all education funding.

To derive an LTCT funding weight, we divided the statewide average cost per LTCT student of \$21,592 by the 2007-08 per student base amount of \$4,500, generating a weight of 4.8. This weight, when applied to the projected total number of LTCT students served and the base amount, will provide an estimate of the total funds needed to equitably and uniformly support appropriate education services for LTCT students in accordance with the service standards specified above.

As the current model simulation is based on 2006-07 data (with adjusted salaries), we recommend that the state rely upon projected counts of students and inflation-adjusted compensation to derive future biennium allocations for a two-year period.

As to implementing this approach over time, a policy decision would have to be made as how to best adjust LTCT funding. One approach would be to re-estimate the standardized cost using the model above (or perhaps a similar model with revised parameters, e.g., modified student to staff ratios if deemed appropriate) and alter the LTCT weight using the current base amount from the general fund formula (i.e., \$4,500 or some revised amount). This recalibration may be particularly appropriate as the context changes (e.g., programs opening/closing). Another option would be to keep the LTCT weight the same and allow the amount of revenues this weight generates to fluctuate with the base amount affecting the funding received by all public education students. For example, if the base amount increased to \$5,000 (an 11 percent increase over the current amount), the fixed weight of 4.8 applied to the new base amount would generate a comparable increase in the overall LTCT funding.

Determining Site Level Funding

After having determined a weight that reflects the standardized cost of educating LTCT students (4.8), we now consider the ways in which this weight can be used to determine the funding levels for each site. We recommend that the two-year contract amounts be replaced with quarterly payments that reflect actual enrollment within a given timeframe. Accordingly, the payment would consist of the LTCT weight multiplied by the base amount (\$4,500 adjusted for teacher experience as is done for regular K-12 funding) multiplied by the average number of students served over the prior quarter. The first payment each fall would be based on the prior year's average enrollment, on the assumption that the prior quarter enrollment may run somewhat lower than the fall capacity.

¹⁴ The teacher experience factor will increase or decrease the \$4,500 per student base amount by \$25 for each year the district average experience is more or less than the statewide average teacher experience. (Source: http://www.ode.state.or.us/sfda/docs/Ed_Funding_K12_2004.pdf)

As the movement from two-year biennium amounts to quarterly payments based on actual numbers of students served may introduce some instability – a concern raised by several committee members – we propose adjustments to minimize the impact of fluctuations in enrollment on the program's ability to maintain needed staff. In cases of enrollment decline, the current quarterly payment could be an average of the prior quarter funding and the funding amount based on the prior quarter enrollment. For example, if the second quarter payment was \$100,000 and the anticipated payment for the third quarter would amount to \$80,000 (based on a lower enrollment in the second quarter), the payment would then average to \$90,000 which provides a buffer against declines in the enrollment experienced in the second quarter. In this way, decreases in funding would be phased in to limit disruption to program stability. At the same time, there would be gradual, ongoing adjustments to the funding received to reflect changes over time in the number of students served. The state might also consider a similar approach to funding programs experiencing growth, to enhance predictability of needed state-level funding.

We recommend retaining a 5 percent set-aside fund to address unexpected costs at the local level. However, to facilitate alignment between the overall funds available to support local payments, we recommend that the Legislature appropriate this insurance funding separate from the amount generated by the formula (as opposed to taking it from the formula amount).

Funding Model Also Delineates Expected Standards of Service

The standards of service as specified for funding above not only provide a rational basis from which to derive appropriate funding for each site, but also specify the service standards (or guidelines) regarding expected levels of provision throughout the state. That is, programs would be funded for a full year and a full instructional day¹⁵ with expected staffing ratios which would serve as guidelines as to what would be expected in terms of local provision, with adjustments for individual children as appropriate in accord with their unique needs.

Fiscal Impact of Model

The available LTCT funds for the 2007-09 biennium, including estimated federal funds and the 5 percent set-aside, amounted to \$37.9 million, roughly \$18.5 million per year. Using 2006-07 data (with salaries adjusted for inflation), the cost-based model generated \$19.6 million. Adding insurance funds (5 percent of the formula amount) to the model, the total estimate for a single year comes to approximately \$20.6 million. On a per student basis, the model's standardized cost estimate of \$21,592 per student is \$2,137 higher than the statewide average contract amount per student of \$19,455 (shown in the last row of column J in Exhibit 3).

¹⁵ While the cost model proposed in this report does not specify hours of instruction per day, it implies a full day of instruction through the use of compensation for full-time equivalent staff.

Overall, we see evidence that the system is under-funded to adequately support the average LTCT student's educational needs, according to the service specifications used in the model. At the same time, it also suggests equity issues with the existing distribution of funds. Indeed, 17 of the 47 programs used in the model are currently receiving more funds per student served in relation to what was simulated under the model. However, it is important to understand that the model simulations were based on a single day count from May 2007, which may not be representative of typical operating capacity for some programs. *The figures produced by the model and comparisons with current funding should be interpreted with extra caution until the state has better enrollment data over time.*

In addition, it was said that LTCT education contracts do not include the cost of space because these costs are covered through other program funding sources. If this is not the case, the state may also wish to consider including funding to address the facilities costs associated with the educational service delivery. Using national data from SEEP, the public school facilities costs associated with special education services ranges from 5.5 to 7.5 percent of the spending on the instructional component (including personnel and non-personnel).¹⁶

Furthermore, to minimize adverse disruptions to the LTCT programs' capacity to serve children, the state may want to hold harmless programs that may lose substantial funds under the model for a limited period of time. This will allow programs to gradually ramp down in a manner that will not hurt the access of individual students to critical educational services. However, if model implementation is phased in over time, "hold harmless" funding provisions may not be needed.

Implementation Suggestions

As estimated above, the LTCT funding model proposed in this report will likely require supplemental state revenues to be fully implemented, although this will not be known with certainty until accurate counts of students served are generated. Given the need to design, test, and fully implement a new data collection (including required participation from all contracting sites) to support the recommended model, it may take up to six months before reliable and comparable LTCT student enrollment data by site are available to the state. We recommend that the state have an additional six months of reliable data after this point before determining future funding allocations. Accordingly, the state will likely not have reliable estimates of necessary funding and how individual sites would be affected until approximately one year from this report.

This process, assuming the steps regarding data collection commence immediately, should provide sufficient time for the state to consider the degree to which the resulting

¹⁶ The range is reflective of different service delivery types; the 7.5 percent includes the facilities costs associate with both special education self-contained classrooms and pull-out services, whereas the 5.5 represents the facilities costs associated with only self-contained classrooms. Facilities cost for special education schools is estimated at 11.1 percent of the instructional costs.

estimates for future LTCT education revenues can be funded for the 2009-11 biennium, and how the new system should best be phased in.

Assuming full funding for the model, for sites that received funding under the current system in excess of their needs as defined by the new model, their funding might be gradually reduced over a six month period to buffer against adverse changes in their capacity to serve students.

If the 2009-11 biennium appropriations are not sufficient to fully support the model estimates, the model can continue to be used to determine adequate funding levels for each site, which would then be prorated by the amount of funding actually available. For example, if the actual appropriations support only 90 percent of the amounts generated by the model, sites would receive 90 percent of the levels estimated by the model. This would result in a steeper decline between the current contract amounts and the 2009-11 estimates for sites that are currently shown to receive excess funds. However, economic hardships could be mitigated by individual appeals to the insurance funds in the initial year of implementation. While this may lead to more equitable funding distributions, partial funding is not recommended.

Alternatively, if the state does not anticipate being able to fully fund the model in the near to intermediate future, the education program standards recommended by the stakeholders for this study could be modified to align with what the state is willing or able to fund. This would lead to diminished LTCT services in relation to what the committee believed was needed, but would also result in more transparency about what the state is willing to fund in LTCT services across the state and the service implications of these decisions, as well as more equitable funding over time.

We stress again that redistribution of funds across sites should be considered *only when and if accurate data, collected over time*, clearly show that some sites are receiving revenues in excess of what is required to provide LTCT education services up to specified state standards of service.

Summary of Recommendations

Improved data

- Current data collection for LTCT programs should be reviewed and consolidated to include only what is necessary for the ongoing analysis and review for accountability and funding needs. Data should also be collected in an efficient manner (e.g., online data forms) with clear, unambiguous guidelines to allow for ready analysis.
- The state should investigate the factors underlying the discrepancies in the existing data (e.g., average daily membership counts that substantially exceed a site's physical capacity), and address these issues.
- Fully comparable counts of children served by site should be collected on a regular and fairly frequent basis, perhaps daily and not less than monthly on a

specified day. While this may introduce a new data collection requirement, it can likely replace other current data collection efforts, and, for purposes of accountability and determining appropriate funding, this information is critical to understanding the typical operating capacity of sites.

Modified funding formula

- To the extent possible, the state should adopt a new LTCT education funding system based on data, with a rational basis, tied to the general education funding formula, and which fosters efficiency of LTCT provision. The overall funding available at the state level should directly correspond to the amount anticipated to fund individual contracts.
- The rational basis should be comprised of service standards that include expected student- to- staff ratios and length of the school year, and should reflect the actual number of students served over a given period.
- The current LTCT formula should be replaced as soon as sufficient and accurate enrollment data (e.g., data representing a six month period) can be developed to support its implementation. If the cost-based model recommended above can be funded in its entirety, it should be phased-in over time for sites with declining funds.
- We do not recommend partial modifications to the existing formula. While the current formula is flawed, current levels of funding should not be redistributed without accurate counts of the students served.
- Once data are in place to allow implementation of a new funding system, payments should be based on prior quarter enrollments. This will align funding with need and should foster stability and predictability about the funds that will be available for program provision to allow for proper program operation and efficient planning. These payments should be adjusted to minimize adverse disruptions to the LTCT programs' capacity to serve children.

Service accountability

- The service configurations underlying the cost model should also serve as the expected standards of service against which site provision and operations will be held accountable.

Broader considerations beyond the immediate scope of this study

- The state should give consideration to enhancing and supporting preventative services in schools to minimize LTCT placements to the extent possible. Toward this end, the state might allow a portion of the LTCT funds to follow students as they transition from the LTCT settings to neighborhood schools to support much needed transitional services.
- Equity of access to LTCT funding should be further considered by the state. The state should consider assessing whether there is a need to increase the number of qualified LTCT education programs. Although the state may want to reduce the number of LTCT placements over time, it also seems important to ensure that there are appropriate placement options available statewide, particularly in the interest of keeping these students closer to their home community.

- We encourage the state to examine concerns raised about the types of students eligible to generate LTCT funding, particularly with respect to Medicaid-eligible students (for DHS placements).
- It would seem that children placed in LTCT-type facilities by their families should continue to have access to public education support and services in a setting appropriate to their welfare and needs.
- Over time, the state should consider how the education outcomes of LTCT programs can be collected and monitored.

Conclusion

The purpose of this study was to evaluate the funding mechanism for the educational component of LTCT programs and to make recommendations for change. Our conclusion from this work, derived from the full range of data collection and analysis conducted for this study including our three stakeholder meetings, is that the current formula is seriously flawed and should be re-conceptualized and re-designed. Sentiments were expressed that the formula has been flawed from the onset, but that the problems became more apparent in recent years with attempts at stricter implementation. While rigorous implementation of the state's distribution formula is needed, it should be applied to a system that is generally accepted as well-conceived and workable for all to the greatest extent possible.

In conjunction with the stakeholder committee, we recommend a new approach to LTCT funding that is based on uniformly adopted and applied service standards, that reflects actual counts of children served, that is tied to the state's overall public education funding formula, and that promotes program efficiency.

This system cannot be implemented and its cost cannot be accurately estimated until reliable counts of LTCT students served at each site are collected by the state. Systems for developing accurate, consistent, and comparable counts of students by site should be initiated by the state as soon as possible. Accurate submissions of these data by participating sites should be mandatory, with funds withheld from contracting sites that do not make full and reasonable efforts to comply with these data collection requirements.

On a final note, we are aware that the state is reconsidering the full system of education and other support services for children who currently qualify for LTCT. Over time, LTCT funding may need to be made increasingly flexible to conform to such overarching program goals as greater emphasis on program prevention services, increased local service provision in home communities, and greater articulation across providing agencies.

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Appendix A: Contracted Districts/ESDs and LTCT Programs

District/ESD	LTCT Program
1 Ashland 5	1 SOCSTC
Ashland 5	2 Community Works
2 Central SD 13J	3 Poyama Land
3 Central Point SD 6	4 SOCSTC
Central Point SD 6	5 SOCSTC - Hanby Middle School
4 Clackamas ESD	6 Christie School
5 Dallas 2	7 Polk Adolescent Day Treatment
6 Douglas ESD	8 Riverside Center
7 Eugene 4J	9 Stepping Stones
8 Grants Pass 7	10 Family Friends
9 High Desert ESD	11 Cascade Day Treatment
10 Hood River County SD	12 The Next Door/Klahre House
11 Klamath Falls City	13 Klamath Youth Develop Ctr
12 La Grande SD	14 Grande Ronde
13 Lincoln County	15 Olalla Center
14 Linn Benton Lincoln ESD	16 Children's Farm Home
Linn Benton Lincoln ESD	17 Old Mill School
15 Medford SD 549	18 SOCSTC
16 Multnomah ESD	19 Kerr Center/Wynne Watts
Multnomah ESD	20 Kerr Center Day Treatment
17 Newberg SD 29J	21 Chehalem Youth & Family Services
18 North Bend 13	22 SOASTC - Coastline
19 North Wasco 21	23 MCCFC
20 NW Regional ESD	24 PACE/Straight Ahead (Kerr)
NW Regional ESD	25 Levi Anderson/St. Mary's
NW Regional ESD	26 Lifeworks/Tualatin Valley Day Treatment
NW Regional ESD	27 NWRESA Children's Ctr
21 Pendleton 16	28 Homestead Youth Lodge
22 Portland	29 BGAS Johns Landing
Portland	30 Clinton St.-Imani
Portland	31 Janus-Taylor & Clackamas House
Portland	32 Janus Buck House
Portland	33 Parry Center
Portland	34 Parry Center Day Treatment
Portland	35 Parry Center SCIP
Portland	36 Rosemont
Portland	37 Nickerson Adol Day Treatment
Portland	38 Salvation Army White Shield
Portland	39 Salvation Army Wildflowers
Portland	40 Morrison Center - Breakthrough
Portland	41 Morrison Center Day Treatment
23 Reynolds 7	42 Edgefield
Reynolds 7	43 CCI
24 Salem Keizer 24J	44 Catholic Community Services
25 Springfield 19	45 The Child Center
Springfield 19	46 SCAR Jasper Mountain
Springfield 19	47 SAFE Center
26 Three Rivers	48 SOASTC
27 Tigard-Tualatin 23J	49 Janus-Cordero
28 Umatilla-Morrow ESD	50 Pendleton Academies/EOAMTC
29 Willamette ESD	51 Rainbow Lodge/Metsker

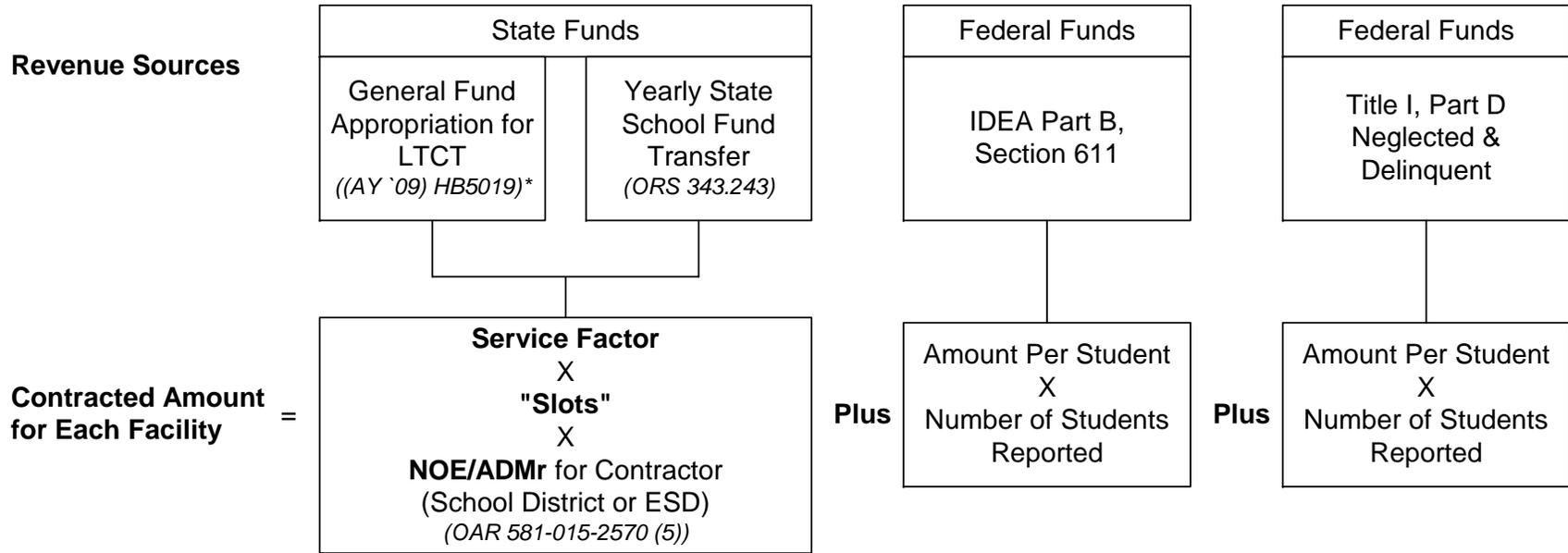
Appendix B: LTCT Education Funding Flowchart

Long Term Care and Treatment Program Funding

Long Term Care & Treatment (LTCT) programs are contracted on a two year cycle - July 1 through June 30. State School Funds (SSF) are calculated separately, using Net Operating Expense/resident Average Daily Membership estimate (NOE/ADMr) for each year of the contract. Federal funds are calculated separately each year based on reported data specific to the applicable federal grant.

The **SSF Transfer Formula** is the number of contracted slots for the CURRENT year multiplied by the NOE/ADMr Statewide Average for the PREVIOUS year.

The **Contracted Amount - State Funds Formula** uses the Service Factor multiplied by slots multiplied by NOE/ADMr. The Service Factor weight is 1.75 for Day Treatment and 2.00 for Residential Facilities. Slots represent the designated or anticipated number of student placements.



*2007 Legislature

Example: Sweet Water School District

2007-09 Service Factor	2007-08 DHS/OYA Students	2007-08 NEO (ADM est)	2007-08 Cost	2008-09 NOE (ADM est)	2008-09 Cost	2007-09 GF/SSF Formula amount	Dec. 2006 COUNT IDEA	Est. 2007-2009 IDEA PT B Funds	Oct - 05 N & D Students	Est 2007-09 N & D Funds	2007-2009 Total Contract
1.75	25.74	\$ 6,759.00	\$ 304,459	\$ 7,029.00	\$ 316,621	\$ 621,080	15.00	\$42,669	22.87	\$ 26,237	\$ 689,986