

Applied Policy Project  
Prepared for the Joint Legislative Audit  
and Review Commission (JLARC)

## An Analysis of the Children's Services Act (CSA)

Understanding the Rising Costs  
of Virginia's Private Special  
Education Day Placements

**JLARC**  
JOINT LEGISLATIVE AUDIT  
AND REVIEW COMMISSION



FRANK BATTEN SCHOOL  
*of LEADERSHIP and PUBLIC POLICY*

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## DISCLAIMER

*The author conducted this study as part of the program of professional education at the Frank Batten School of Leadership and Public Policy, University of Virginia. This paper is submitted in partial fulfillment of the course requirements for the Master of Public Policy degree. The judgments and conclusions are solely those of the author, and are not necessarily endorsed by the Batten School, by the University of Virginia, or by any other agency.*

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## HONOR STATEMENT

On my honor as a student, I have neither given nor received unauthorized aid on this assignment.



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## EXECUTIVE SUMMARY

The Children's Services Act (CSA) is an interagency fund that provides care for some of the Commonwealth's most vulnerable populations: children in the foster care system and students who require private special education services. For the purposes of this analysis, this report focuses on the latter population and the rising costs for covering this high-needs population in private day schools.

**Virginia's spending for special education private day placements is rapidly increasing.** Over the past five years, Virginia has experienced a significant increase in both the number of children and an increase in spending per child in private special education. In 2019, 4,227 children were served in private day placements, an increase of 811 students, or 19%, since 2015, and spending has increased to over \$43,000 annually per child. (*Private Special Education Services Under the CSA: Annual Report to the General Assembly*, 2019). Private day expenditures in the CSA compose a dominant share of the fund, and the Commonwealth must find a way to mitigate the rapid growth of costs to ensure full coverage for a growing special education population.

This report is prepared for the Joint Legislative Audit and Review Commission, a state agency that conducts program evaluation, policy analysis, and oversight of state agencies on behalf of the Virginia General Assembly. Because JLARC is in the process of comprehensive evaluation of the Children's Services Act, this analysis serves as a resource for their study. Ultimately, this APP describes more information about the costs of private day placements and provides critical analysis on the problem.

The report proposes four alternatives against the criteria of cost, legality, feasibility, and equity. Using information gathered from the literature and independent data analysis, this report proposes four alternatives: one to maintain the status quo, two based on funding formulas from other states, and one funding formula from within the Commonwealth of Virginia:

1. Maintain the status quo, a 2 percent cap on private day placement tuition rates.
2. Move to census-based state funding, which allocates CSA funds based on a locality's total enrollment rather than its special education population.
3. Align the CSA match rate with the Virginia Department of Education's Local Composite Index of Ability-To-Pay (LCI).
4. Utilize single-student weight state funding, which adds a multiplier to per-pupil funding for students who require private special education services.

After examining the CSA funding structure, it is clear that the current CSA match rates are outdated and inequitable – these measures do not represent a locality's ability to pay for private special education day services. When evaluating these alternatives across the four criteria, **this report recommends Alternative 3: Align the CSA match rate with the Virginia Department of Education's Local Composite Index of Ability-To-Pay (LCI).** The LCI is a reliable measure that can equitably and substantively reduce CSA private day costs for the state. This report concludes with suggestions for implementation and future considerations.

## KEY ACRONYMS

CSA	Children's Services Act
CPMT	Community Policy and Management Teams
FAPE	Free and Appropriate Public Education
FAPT	Family Assessment and Planning Teams
IDEA	Individuals with Disabilities Education Act
IEFP	Individual Education Program
IFSP	Individual Family Service Plan
JLARC	Joint Legislative Audit and Review Commission
LCI	Local Composite Index of Ability-to-Pay
MDT	Multi-Disciplinary Planning Teams
OCS	Office of Children's Services
SEC	State Executive Council
VDOE	Virginia Department of Education

## INTRODUCTION AND PROBLEM STATEMENT

The Children’s Services Act (CSA) is an interagency fund that provides care for some of the Commonwealth’s most vulnerable populations: children in the foster care system and students who require private special education services. For the purposes of this analysis, this report focuses on the latter population and the rising costs of covering this high-needs population in private day schools.

According to federal law in the Individuals with Disabilities Education Act (IDEA), Virginia is required to provide a “free and appropriate public education,” also known as FAPE, to all children with disabilities (Dragoo, 2018). Special education students are placed in a variety of settings, including traditional classrooms or special education classrooms in a public school, regional special education programs, home-based instruction, hospitals or institutions, and private day placements (Virginia Department of Education Division of Special Education and Student Services, 2010). While public school programs for special education services is funded through the Virginia Department of Education, the Commonwealth of Virginia uses the CSA as a separate pool of funds for private special education day placements (Virginia Department of Education Division of Special Education and Student Services, 2010) While the CSA combines funding from state agencies and localities across the Commonwealth, the cost of these services continues to burden the state.

### Problem Statement

**Virginia’s spending for special education private day placements is rapidly increasing.** Over the past five years, Virginia has experienced a significant increase in both the number of children and an increase in spending per child in private special education. In 2019, 4,227 children were served in private day placements, an increase of 811 students, or 19%, since 2015, and spending has increased to over \$43,000 annually per child. (*Private Special Education Services Under the CSA: Annual Report to the General Assembly*, 2019). Private day expenditures in the CSA compose a dominant share of the fund, and the Commonwealth must find a way to mitigate the rapid growth of costs to ensure full coverage for a growing special education population.

## BACKGROUND

### Context About the CSA

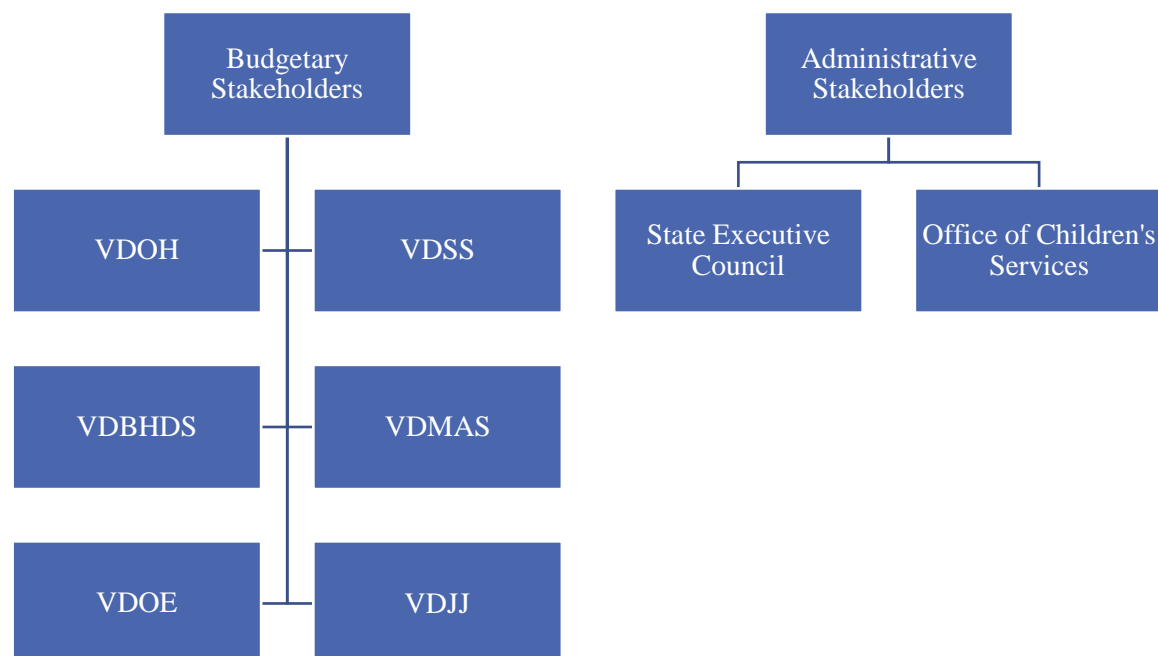
Enacted in 1993 by the Virginia General Assembly, the Comprehensive Services Act – renamed the Children’s Services Act (CSA) in 2011 – was established as a codified system of care to address the strengths and needs of troubled and at-risk youths and their families in the Commonwealth. The CSA provides services primarily for two populations: children in foster care and children who require private special education. This analysis will focus on children who require special education and more specifically, children placed in private day schools.

Students who require special education services can be recommended to attend a private day placement by an Individual Education Program (IEP) or an Individual Family Service Plan (IFSP). Currently, there are 115 private school providers for students with disabilities scattered across the eight Superintendent’s Regions in Virginia (Virginia Department of Education, 2020) .

The Children’s Services Act (CSA) creates collaborative services through a state-supervised and locally administered system, which means public stakeholders and funding contributors exist at both the state and local level. (Office of Children’s Services, 2019a).



Figure 1: State CSA Stakeholders Map



As Figure 1 displays, two administrative state stakeholders oversee the CSA, the State Executive Council (SEC) and the Office of Children Services (OCS). The SEC is the supervisory council in the executive branch of state government, while the state agency OCS acts as the administrative entity. For funding, the CSA pools resources from various state agencies: The Department of Health, Department of Juvenile Justice, Department of Social Services, Department of Behavioral Health and Developmental Services, Department of Medical Assistance Services, and the Department of Education (Office of Children’s Services, 2019a).

At the local level, public stakeholders in each locality are directly responsible for providing CSA services. Local governments provide care through their Community Policy and Management Teams (CPMTs) and their Family Assessment and Planning Teams (FAPTs). CPMTs determine the local policies and procedures of the CSA, while FAPTs work at the individual case level for service planning and review. In addition to these two teams, localities can also create Multi-Disciplinary Planning Teams (MDTs) to review routine cases, decrease burden on FAPTs, and maximize the use of professional services. For funding, localities contribute a percentage of resources to cover the costs of their private special education through the CSA match rate. The CSA match rate is a base allocation percentage determined by the Appropriations Act. On average, localities pay a base allocation rate of about 36.65% and the state covers the remainder of costs (Office of Children’s Services, 2019b).

## Policy Problem Development

The issue of rising private day placement costs has been on the policy agenda in Virginia for the past few years. In 2015, the Virginia Commission on Youth found that private day placement costs had risen over the past few years, but no data existed regarding the effectiveness of these services (Virginia Commission on Youth, 2015). The recommendations from this report led to a collaborative effort between the Virginia Department of Education and the Office of Children's Services (OCS) to make progress on the issue. In November of 2018, these two agencies presented ten outcome measures to track the private day placement effectiveness. These ten include graduation rates, attendance, individual student progress, standardized test scores, return to public school setting, post-secondary transition, suspension and expulsion, restraint and seclusion, parent satisfaction, and student perspective. This report proposed data collection begin during the 2019-2020 school year (Office of Children's Services & Virginia Department of Education, 2018).

With costs still rapidly rising, the General Assembly passed a mandate in the 2018 Appropriations Act requiring OCS to conduct a study of the cost of private special education day programs. OCS contracted the work to the Public Consulting Group, who published an interim report in November of 2018 and a final report in October of 2019. The final report analyzed cost and personnel data from 40% of the state's private day placements, accounting for about 64% of the student population. With this data, they found the average rate to be about \$239.45 per student day, though some schools spend much more, while others spend much less. This report also recommended a future data collection mandated by the state for every private day special education school, which would include a full set of expenditure and personnel reports, indirect costs, and logic-checks. OCS has already begun to administer data collection based on this recommendation. Finally, the report recommends Virginia develop a geographic approach to rates derived from the costs of the providers specific to that area (Office of Children's Services, 2019c).

During the 2019 Session, the General Assembly approved a 2% limit rate increase for private special education tuition rates for the CSA (*2019 Virginia Assembly Appropriations Act Chapter 854*, 2019). In addition, JLARC approved a comprehensive study of the CSA, which will include an analysis of special education and private day placements. This report is expected to be delivered later this year in 2020, although the delays from COVID-19 may hinder the progress and release of this study. This APP aims to synthesize information gathered by the reports above and serve as a platform for JLARC's upcoming study. Ultimately, this report serves to describe more information about the costs of private day placements and provide critical analysis.

## PROBLEM ANALYSIS

In Virginia, special education costs for private day placements are rising because of 1) an increase in number of students placed in private day settings and 2) an increase in average cost per student. In light of these trends, this section describes two key areas: special education placements and special education funding.

This section also integrates independent data analysis based on the Local Expenditure Data and Reimbursement System (LEDERS) data set, which was provided by the Offices of Children's Services. LEDERS captures transaction-level expenditure data for the CSA from 2017-2019 reported by localities, so the state can reimburse localities and consequently providers with CSA funds. Each transaction is attached to a unique ID for the child served. The raw LEDERS file has 735,275 observations with 46 variables. This descriptive analysis focuses only on transactions for private special education day placements. For the purposes of this APP, the LEDERS data provides rich cost data and demographic information for children who receive these services.

First, this section discusses questions related to special education placements: 1) Where are children who require special education services served? 2) What types of students are placed in more restrictive settings? and 3) Are these trends reflected in the Virginia student population?

Next, this section analyzes special education financing: 1) How do local governments fund special education services? 2) How do states fund special education services? and 3) How does Virginia balance local and state funding for special education with the CSA? This section concludes with a handful of takeaways for the report's criteria and alternatives.

### Special Education Placements

#### **1. Where are children who require special education services placed?**

Children identified with a variety of needs are covered by special education services and placed in a wide range of settings. According to the Individuals with Disabilities Education Act (IDEA), the federal legislation that includes mandates for special education, there are 13 categories for disability: specific learning disabilities like dyslexia, other health impairments like ADHD, autism spectrum disorder (ASD), emotional disturbance, speech or language impairment, visual impairment including blindness, deafness, hearing impairment, deaf-blindness, orthopedic impairment like cerebral palsy, intellectual disability like down syndrome, traumatic brain injury, and multiple disabilities ("Sec. 300.8 Child with a disability," n.d.).

After a child is identified with one of these disabilities that require special education, they must be placed in an appropriate educational environment. The U.S. Department of Education identifies four broad environments where students can be placed: 1) inside the regular class 80% or more of the day 2) inside the class 40-79% of the day 3) inside the regular class less than 40% of the day and 4) other environments, which include separate schools, residential facilities, homebound/hospital environments, and correctional facilities (US Department of Education Office of Special Education and Rehabilitative Services, 2018).

Each year, the U.S. Department of Education releases a report that provides information about where children across the country served by the IDEA are placed. In the fall of 2016, 63.1% of these students were educated with their peers without disabilities inside the classroom for at least 80% of the day. This represents an increasing trend; more children served by IDEA are served alongside peers without disabilities. Only 5.1% were served in “other environments,” and only 2.9% of total students attended separate schools. Levels for “other environments” have remained stagnant, ranging from 5% to 5.3% from 2007 to 2016 (US Department of Education Office of Special Education and Rehabilitative Services, 2018)

Although the levels for “other environments” have remained stagnant across the country, Virginia has seen a significant increase in the number of students in private day placements, with the number of children in private day placements has increasing by 24% since 2015 (*Private Special Education Services Under the CSA: Annual Report to the General Assembly*, 2019)

In Virginia, children can be recommended to attend a private day placement by an Individual Education Plan (IEP) or an Individual Family Service Plan (IFSP). The IEP is developed by the child’s school based IEP team, while an IFSP is developed by the CSA local Family Assessment and Planning Team (FAPT). All children and youth who receive services funded by the CSA are identified and assessed yearly with the Child and Adolescent and Strengths (CANS) Virginia Version (*Policy Manual for the Children’s Services Act*, 2019). These two assessment tools, the CANS and an IEP, inform a child’s learning environment placement.

## **2. What types of students are placed in more restrictive environments?**

Although the federal IDEA report shows that many students are not placed in restrictive settings, the literature and LEDRS data analysis reveals that some students may be disproportionately placed in more restrictive environments. Some of these students disproportionately placed in restrictive settings include 1) students with extensive support needs, 2) students with low-incidence disabilities, 3) students with autism, and 4) students across dimensions of geography or race.

Students with extensive support needs (ESN) are predominantly taught in separate classes despite the evidence that the more inclusive settings may improve outcomes (Morningstar et al., 2017). Students with ESN require ongoing pervasive supports with disabilities like autism, intellectual disability, and multiple disabilities. To examine why these students were placed in more restrictive settings, Kurth, et al. (2019) analyzed 88 IEPs. The IDEA states that students are eligible for “specially designed instruction” if they have a disability and need special education services because of that disability. Kurth et al. found however, that IEPs use this eligibility criteria to justify students’ removal from general education environments, even though the IDEA states that removal from general education settings should only occur when the nature of severity of the disability requires such removal. In other words, the way schools complete their IEPs could be funneling more students, particularly with ESN, into more restrictive environments than necessary for the child.

Children with low-incidence disabilities may also be disproportionately placed in more restrictive learning environments. In 2014, Kurth, Morningstar & Kozleski analyzed data from the State Performance Place and the Data Accountability Center to investigate which disability categories often appear in more restrictive environments. They found that students with low-incidence (severe) disabilities are disproportionately placed in restrictive environments, despite growing evidence that inclusive educational settings enhance opportunities to learn for children with special education needs (Kurth et al., 2014). More specifically, they found students who have dual-sensory impairments like deaf-blind, multiple disabilities, and emotional behavioral disorders are more likely to be educated in separate schools. In addition, they found states are doing very little to reduce this disproportionality. Between 2004 and 2012, the most restrictive placement category only decreased by 0.01% across all states (Kurth et al., 2014).

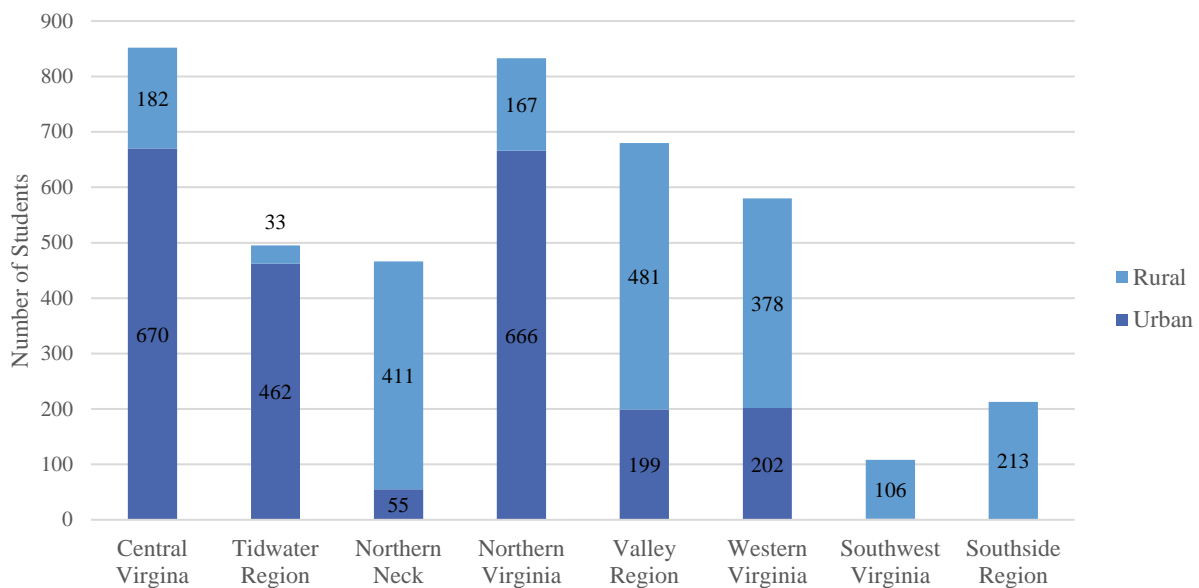
In addition to students with ESN and low-incidence disabilities, students with autism may find themselves in a more restrictive environment based on their state of residence. In 2015, Kurth analyzed how factors like state residence and state funding formulas impact placement outcomes for students with autism. For example, separate settings are most common in the Eastern United States, while nine of the ten states with the least separate settings are in the Western United States. At the same time, she found that some states like Montana, New Mexico, and West Virginia had no children with autism educated in separate schooling. Beyond identifying trends for students with autism, Kurth's findings reveal that other factors besides child characteristics, like those related to geography, may be influencing placement for students requiring special education services (Kurth, 2015).

### **3. Are these trends reflected in the Virginia private special education student population?**

Consistent with this literature, autistic students in Virginia are over-represented in restrictive environments. Utilizing the LEDRS data set described above, child-level analysis shows that autistic students make up about a third of the private special education student population, but this is not representative of the overall population of students with disabilities. For example, according to the Virginia Department of Education (VDOE) in 2017, autistic students made up about 12 percent of the total school-age population with a disability. In the same school year, LEDRS data reveals that autistic students accounted for 35 percent of the private special education population.

Furthermore, in Virginia, the concentration of students in private special education is distributed differently even within geographic regions of the state. Overall, the CSA serves over 4,000 students in private day placements. Using the LEDRS data set, this analysis found that about 53% of these students come from urban localities and 47% from rural localities, where an indicator for urban and rural was designated based on the locality's Virginia School Divisions Locale Descriptions (Virginia Department of Education, 2009). Figure 2 shows the distribution of students across the eight Superintendent's Regions of Virginia as defined by the VDOE. To see a map of which localities are included in each of these regions, please see Appendix A. The bar chart also shows how many students from that region live in urban and rural localities.

Figure 2: 2019 Count of Rural and Urban Students Served in Private Special Education



Note: Southwest Virginia had 2 urban students and the Southside Region had 0 urban students.

In this stacked bar chart, there is no clear overrepresentation of rural students or urban students across the Commonwealth. Instead, this data shows that each region of Virginia has a unique makeup of rural and urban students, which may be dependent on factors like the population and the number of available private day providers. For a further breakdown to see which localities fall into each region, please see Appendix B.

Finally, some demographic groups are disproportionately represented in private day placements. Based on analysis from LEDRS data, in 2018, 59% of special education students in private day placements were white and 34% were black. This does not match the overall student population of Virginia in that same school year, where white students made up 53% of the population and black students made up only 20% (Kids Count Data Center, 2019).

## Special Education Financing

### 1. How do local governments fund special education services?

Although funding for special education is subsidized federally and funded by states, localities also bear the burden of rising costs. In Virginia, the Children's Services Act is inherently "state supervised, locally administered," in both practice and in funding (*User Guide for the Children's Services Act*, 2018). For private day special education, each locality must provide CSA match funds private day services. Although local-level funding literature is limited, the research reveals two key characteristics of district-level funding.

First, localities with more wealth are associated with contributing more funds for their special education students. Conlin and Jalilevand have researched various relationships for district-level special education spending in the state of Michigan based on a unique panel dataset of annual district level financial data and enrollment data. These researchers found that the financial burden associated with cross-subsidization between state and local funding burdens poorer districts (Conlin & Jalilevand, 2018). In addition, the composition of special education students varies widely based on the wealth of the district. In other words, local school districts with high taxable value per pupil often have less students that require special education services, and these districts spend more per pupil on special education services (Conlin & Jalilevand, 2015). Conlin and Jalilevand's research recommends that when states examine their own local data, it is important to account for the composition of the students who require special education services within each locality, because the composition may provide information about local funding incentives (2015).

Second, localities respond to financial incentives and state funding formulas. In 2010, Kwak studied California's reform in the late 1990's to a state census-based funding formula. Using an instrumental-variable approach with pre-reform disability rates as the instrument and the reform as the treatment, Kwak found that districts respond to census-based funding by adjusting the percentage of students labeled as disabled (Kwak, 2010). In 2012, Battisti, Friesen and Hickey used student-level panel data to investigate the impact of British Columbia's 2002 policy to eliminate supplemental grants to school districts for some students with special needs. They found that students were less likely to receive designation for gifted, moderate behavioral disorder, or mild mental illness under the new funding rules (Battisti et al., 2012). This lesson is valuable for Virginia, because major shifts in state funding formulas may have downstream effects for the Commonwealth's localities.

## **2. How do states fund special education services?**

While local districts play a role in funding special education services, state-level funding systems are an important tool to mitigate rising costs. For special education, states have the authority to utilize their own funding formulas to finance services and mitigate rising costs. In 2010, Eileen Ahearn conducted a survey of special education funding formulas for each state in 2008-2009. Although the status of each state may be outdated, Ahearn worked with American Institutes for Research partners to classify state special education funding formulas into eight distinct categories: (1) single-student weights (2) multiple-student weights (3) census-based (4) resource-based (5) block grants (6) percentage reimbursement (7) no separate special education funding and (8) combination (Ahearn, 2010). This literature review pays special attention to student weights, census-based, and resource-based formulas due to their prevalence in the literature and relevance to the state of Virginia.

*Student weights* Single-student weights allocate a single multiple of the general education amount or a fixed dollar amount per special education student. Similarly, multiple-student weights allocate funds per special education student, but the amount is based on a series of multiples of the general education amount or tiered dollar amounts that varies by disability, type of placement, or student need (Ahearn, 2010). Ahearn found that student weights were the most prevalent funding formula, with 19 states following this method. For example, Georgia utilizes five separate special education categories based on acuity of need. Each category assigned a weight or multiplier ranging from 2.3968 to 5.8151 and applied to the base student rate for the school year to cover compensation for additional costs (Office of Children's Services, 2019c). In Texas, the students' placement impacts their weighting. A student in a mainstream setting receives a different weight compared to being placed in a separate environment. On one hand, student weights are positive because the amount of funding increases as the basic grant amount increases, so a special allocation change or legislative stipulation is unnecessary. On the other hand, student weights designate a uniform allocation for all students in a category, even if their program or individualized costs may vary (Verstegen, 2011).



*Census-Based funding* In states like California, New Jersey, and Pennsylvania, census-based funding allocates a fixed dollar amount per total enrollment or Average Daily Membership (Ahearn, 2010). This method is unique to other financing mechanisms because the amount is largely independent of the characteristics like the number of special education students served or special education programs. (Dhuey & Lipscomb, 2013). In other words, each district receives the same grant regardless if they have one child requiring special education or one hundred. Census-funding redirects incentives such that districts that typically spend more on special education must pay for the difference by either raising taxes or reducing expenditures (Dhuey & Lipscomb, 2011). It serves as a cost-containment strategy and several states adopted the formula in the 1990's (Dhuey & Lipscomb, 2013). Census-based funding is similar to a healthcare model of cost-reduction called capitation.(Dhuey & Lipscomb, 2011). In health care plans like Medicare, capitation replaces fee-for-service payment so that providers receive a fixed payment to treat plan members. This model reduces moral hazard, but it also increases a provider's incentive to reduce care and avoid costly patients (Newhouse, 1996).

Census-funding has three key advantages. First, it incentivizes cost-effective spending for school districts. Second, it reduces the financial incentive to overidentify disabilities in exchange for more per-pupil funding. Finally, it is a transparent system by design. On the other hand, census-based funding faces trade-offs. The primary concern is equity: districts with more students identified as disabled will necessarily receive less funding per-pupil (Dhuey & Lipscomb, 2013). In studies conducted in New Jersey and Pennsylvania – census-funded states – there was a statistically significant relationship between higher poverty rates and higher disability rates, rejecting a uniform distribution of funds (Baker & Ramsey, 2010). In addition to equity trade-offs, census based funding may disincentivize high quality services and disability identification (Dhuey & Lipscomb, 2013).

*Resource-based funding* This formula is usually determined by prescribed staff-to-student ratios varying by disability or type of placement or student need. In resource-based funding, allocations are based on payment for a certain number of education resources (Ahearn, 2010). This funding formula is in the minority among states, with only about six states implementing this method in 2008-2009.

*Other funding formulas* Percentage reimbursement funding allocates based on a percentage of allowable and actual expenditures (Ahearn 2010). In other words, these states will define a set of eligible cost categories and then reimburse a percentage of these costs with state funds (Verstegen, 2011). As of 2008-2009, about six states utilized this funding formula (Ahearn, 2010).

Block grant funding uses a base-year or prior year allotment based on allocations, revenues, or enrollment. In some states, special education funding is rolled into overall funding levels and there is no separate source of funding. Between 2000 and 2009, five states switched to this type of funding system (Ahearn, 2010).

A handful of states have pools of funds for students with extraordinarily high-cost exceptional students (Verstegen, 2011). For example, Alabama has a “catastrophic” funding category, and Connecticut contributes money if a special education student costs 4.5 times the prior year’s average cost per pupil (Verstegen, 2011). Another example is Maryland, who provides funds only when a students’ costs exceed three times the basic cost, and the state contributes 70% of the costs exceeding that amount (Office of Children’s Services, 2019).

### 3. How does Virginia balance local and state funding for special education with the CSA?

Based on this research, the LEDRS data can provide insight into the local and state costs within Virginia. Because Virginia has over 120 localities, this analysis breaks down average costs per student at the regional level. Using the eight Superintendent's Regions as designated by VDOE, the LEDRS data reveals that average per student private special education costs vary across Virginia. Table 1 compares the 2019 average CSA cost per child in each region of Virginia compared to the state average CSA cost. According to the CSA's Report to the General Assembly, the average cost per child in 2019 was \$43,780 (*Private Special Education Services Under the CSA: Annual Report to the General Assembly*, 2019). As seen in Table 1 below, Northern Virginia with localities like Alexandria and Fairfax, pays significantly more per child than average, close to \$60,000 per student, while the Tidewater Region, which includes cities like Norfolk and Newport News pay, much less, around \$35,000 per student.

Table 1: 2019 Average CSA Costs per Child by Region

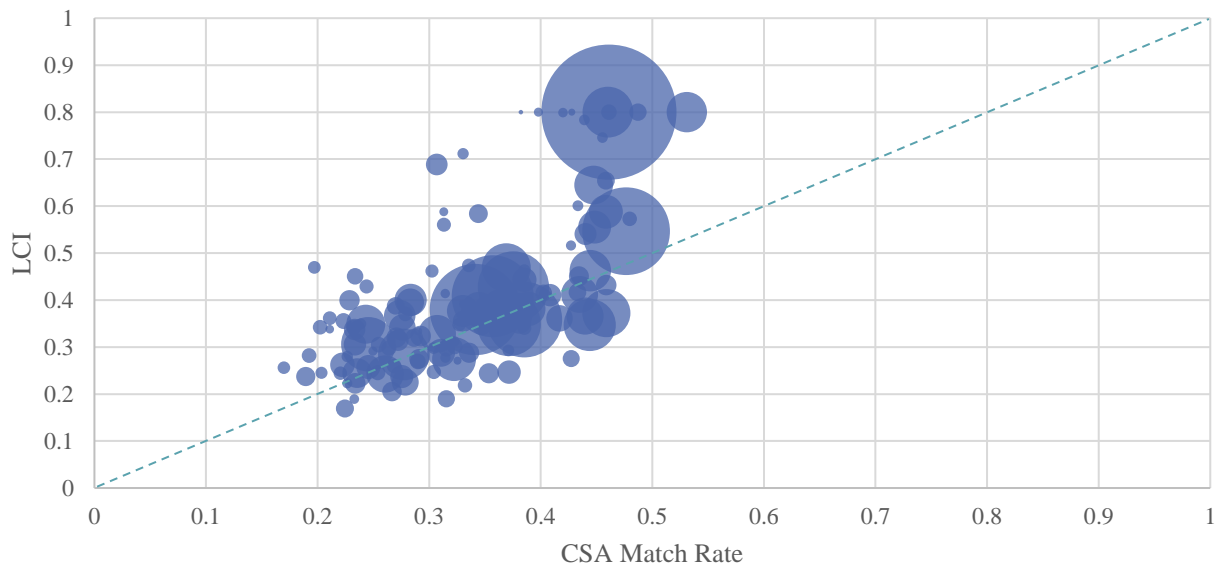
Northern Virginia	\$57,056
Northern Neck	\$48,381
Central Virginia	\$44,787
Valley Region	\$40,721
Southside Virginia	\$37,949
Southwest Virginia	\$37,521
Western Virginia	\$36,002
Tidewater Region	\$34,198
<b>CSA Reported Avg</b>	<b>\$43,780</b>

These costs are covered with a mix of state and local funding determined by the CSA match rate, but analysis reveals that these CSA match rates are significantly outdated. In the 2019 Appropriations Act, the CSA match rate is “based on actual total 1997 program expenditures for the Children's Services Act” (*2019 Virginia Assembly Appropriations Act Chapter 854*, 2019). The 1997 Appropriations Act states that the CSA match rate uses FY 1995 as the base year, which does not represent a locality's current ability-to-pay (*1998 Session Virginia Acts of Assembly Chapter 889*, 1998).

As a measure for ability-to-pay, this analysis uses the Virginia Department of Education's Local Composite Ability-to-Pay Index (LCI), a match rate updated every two years to determine the relative measure of local resources relative to the state average for public education. On average, most localities pay about 45% of their public education and the state covers about 55%, compared to the CSA match rate, where localities pay about 36% of private special education costs (Virginia Department of Education, 2019). Because of this outdated CSA match rate, some localities cover more than they are able to pay for private special education services, while many are underpaying. Figure 3 compares localities' CSA match rate with their LCI.

Figure 3: Comparing CSA Match Rate and LCI Rate by Locality

The CSA match rate does not reflect a localities' current population or their general ability-to-pay for private special education service



*Note: Bubble size increases for every 100 school-age students in a locality during the 2017 school year.*

Figure 3 includes data from the 120 plus localities across Virginia and compares their share of private special education costs (the CSA match rate) with their share of public education costs (the LCI match rate). If the CSA represented an accurate ability-to-pay measure, the graph would display a precise positive linear trend as marked by the  $x=y$  dotted line, where for example, localities with a .2 CSA match rate would also have a .2 LCI match rate.

Instead, the figure shows that every locality above the  $x=y$  dotted line is underpaying compared to their ability-to-pay, while every locality under an  $x=y$  dotted line is overpaying. For example, localities like Charlottesville have an LCI ability-to-pay at around .7 but currently pays about .3 with the CSA match rate. In addition, Figure 3 includes a measure of school-age population based on the most public recent data from the Weldon Cooper School-Age Demographic Counts in 2018 (Weldon Cooper Center for Public Service, 2017). Larger circles represent localities with a larger school population. This dimension of the graph reveals that some large localities are paying lower CSA match rates compared to their relative size.

In sum, many localities are underpaying their ability-to-pay when using LCI as a proxy. At the same time, a handful of counties are overpaying for their private special education because of an outdated CSA match rate. For a tabular view of every locality's CSA match rate compared to their LCI, please refer to Appendix C.

## Problem Analysis Takeaways

This section provides takeaways for this report's proposed alternatives and for future analysis. First, some students are over-represented in restrictive learning environments like private day placements. In Virginia, autistic students are over-represented, and the concentration of students from rural and urban localities varies by region. In future analyses, it may be helpful to investigate why some localities may be placing more students in restrictive settings compared to others. Second, funding formulas outside of Virginia and within the Commonwealth provide opportunities to mitigate rising costs. More specifically, census-based funding can distribute funds based on total enrollment rather than the private special education population, and student weights present a popular option that allocates a multiple of per-pupil-funding based on acuity of need. Within the Commonwealth, this review found that the Virginia Department of Education utilizes LCI as a reliable ability-to-pay formula that is less outdated than the current CSA match rate.

## CRITERIA

Utilizing the information gathered from the background, literature review and data analysis, this report proposes alternatives against four criteria. Before defining the selected criteria, it is important to note why quality was not considered for this analysis. Currently, there is no data available to measure the quality of care students receive in private day placements. As previously described in the background section, the Virginia Department of Education began collecting ten outcome measures in 2019-2020 school year, but since that data is unavailable to describe the state of quality, this analysis cannot project how the alternatives will change the quality of care students receive. Instead, this analysis measures the alternatives on four criteria: cost, legality, feasibility, and equity.

### Cost

Because rising costs is the key policy problem of focus for JLARC, the alternative must address increasing cost when providing private special education services. More specifically, this criterion defines cost as the state budgetary portion of CSA expenditures for private day school. Because the state covers on average 64% of the costs to the localities 36% match rate, this analysis estimates state budgetary costs in 2019 were about \$120 million of the \$186 million in net CSA expenditures on private day school services. (*Private Special Education Services Under the CSA: Annual Report to the General Assembly*, 2019). Each alternative will have an estimated dollar range of CSA expenditures saved over ten years (2021-2030). For this criterion, more state cost savings overall is preferred to less, even if the bulk of savings do not begin accumulating until later within the ten-year window.

### Legality

According to the federal law, all students with disabilities must be provided access to a “free appropriate public education,” which is often referred to as FAPE (Dragoo, 2018). With this requirement, the legality criterion considers how the alternative continues to provide fully funded private special education access to all students who need it, even as the number of students continues to rise. In the outcomes matrix presented later in this report, the legality criterion is assessed with a simple yes/no determination.

### Feasibility

The feasibility criterion captures both political and administrative feasibility. Political feasibility considers how likely it is that the alternative will be adopted by state legislators. Funding for the CSA is approved by the Virginia General Assembly on a biennial budget cycle, so the approval and consensus of the legislative body is critical for the progress of any alternative. In addition to adoption, implementation is equally important. Administrative feasibility considers how the Office of Children’s Services and localities that provide services will implement the alternative. This criterion will be ranked high, medium, or low, where high feasibility is preferred.

## Equity

This criterion aims to consider the balance of benefits across subgroups. More specifically, the alternative should provide equitable state CSA resources to students across both geographic areas and socio-economic status. Geographic equity considers distribution of resources between urban and rural localities. This analysis will use the VDOE's definitions of urban and rural, based on their Virginia School Divisions Locale Descriptions (Virginia Department of Education, 2009). Socio-economic equity considers how resources are distributed between wealthy localities and low-income localities. This analysis will use the VDOE's Local Composite Ability-to-Pay Index (LCI) as a proxy to determine the wealth of a locality, where localities with a high match rate are considered wealthier than localities with a lower local match rate. This criterion will be ranked high, medium, or low, where high equity is preferred.

Based on the background, literature review, and the information revealed from the data provided by the Office of Children's Services, this analysis proposes four possible alternatives to address the problem – one option to let present trends continue, two funding formulas based on other states, and one funding formula based on a measure within the Commonwealth.

## ALTERNATIVE 1: Let Present Trends Continue

In 2019, the General Assembly placed a cap on private special education tuition such that localities could not provide providers funds more than two percent above the rates paid in the prior fiscal year. In other words, rates in fiscal year 2020 cannot exceed two percent over the rates paid in fiscal year 2019 (Reiner, S., 2019). This is a short-term solution to address increasing costs for private special education services. This option recommends maintaining the current funding structure, which means the General Assembly will have to continue to appropriate more funding to these services and consequently provide less funding to other CSA services like foster care placements.

### Analysis

**Cost:** To estimate the cost of this alternative to the Commonwealth, this analysis projects average cost for the state over the next ten years from 2021-2030. This calculation requires an estimated increase for two factors: 1) an increase in students and 2) an increase in average cost per student. First, the number of CSA private special education students rose by 24% between 2014-2019, but the rate of growth slowed from 10.7% in 2018 to 7.1% in 2019 (Office of Children's Services, 2019d). Based on these growth rates, this analysis modestly estimates a 5% increase in students each year for the next ten years. Second, this analysis estimates the increase in average cost per student will be 2% each year, because the status quo policy in the Appropriations Act sets a 2% cap on private rate increases (*2019 Virginia Assembly Appropriations Act Chapter 854*, 2019).



Figure 4 tracks the annual cost from 2021-2030. While the state spent about \$120 million in 2019, present trends suggest that state budgetary costs will rise to \$256 million by 2030. Using the present value formula at a discount rate of 3%, this alternative will cost about **\$1.6 billion** in CSA state budgetary costs over the next ten years. Because this alternative serves as the baseline, it does not include cost savings.

Figure 4: Status Quo State Budgetary Cost in Millions, 2021-2030



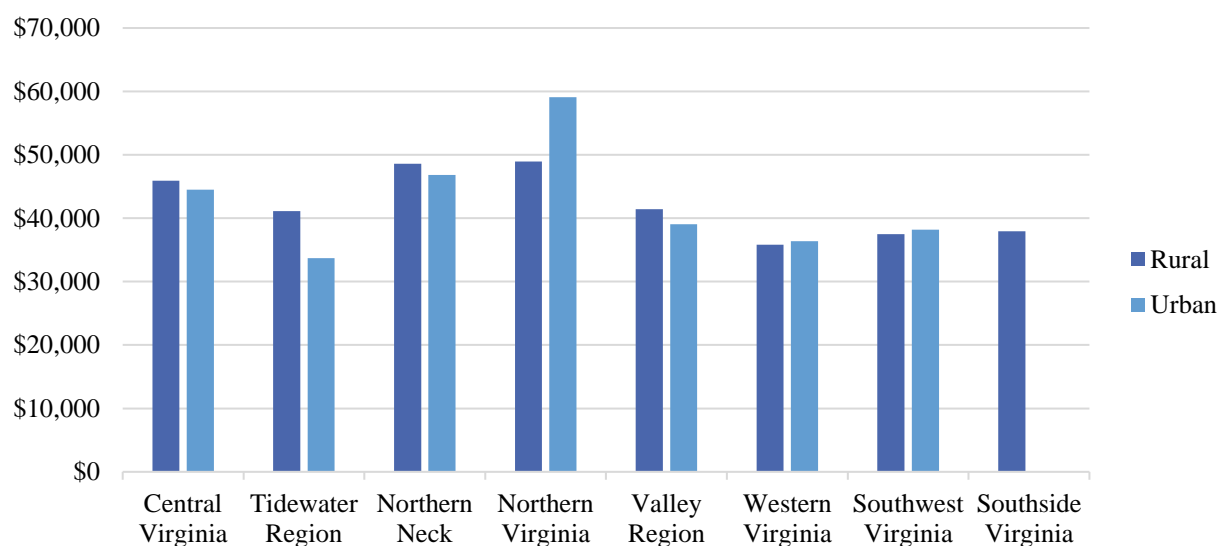
**Legality:** This alternative maintains funding at or above the previous year’s amount for the next ten years, so it meets the requirements of the IDEA and ensures all students receive a free and appropriate education.

**Feasibility:** This option ranks **medium** in overall feasibility. Administratively, this alternative is highly feasible because it requires no changes in implementation or practice for localities and state agencies. This alternative is less feasible politically, however; because the General Assembly has been actively looking for ways to mitigate costs. After five years of studies from various agencies and commissions, it is unlikely that legislators will be content with costs rising to over \$256 million by the year 2030 without some intervention.

**Equity:** This option is ranked **medium** in equity because although rural and urban costs are equitable within regions, the status quo funding does not address socioeconomic need.

The LEDRS data shows that private special education costs are somewhat equitable across the state and within regions. In 2019, the average urban private education costs per year were \$42,528 and rural private education costs were \$42,156. As shown in Figure 5, the average costs per child are about the same for rural students and urban students even within a region.

Figure 5: 2019 Average CSA Cost per Child by Region, Urban vs. Rural



\*Note: According to LEDRS data and the Virginia Locale Descriptions, Southside Virginia has no observations for urban students.

When using the Local Composite Index Ability-to-Pay (LCI) as a proxy for socioeconomic status – such that a higher LCI represents a wealthier locality – it is clear that current CSA match rates are inconsistent with a locality’s ability-to-pay. In fact, every locality that pays above the average ability-to-pay rate, an LCI of 45%, pays a smaller CSA match rate than they do for public education. For example, Alexandria has an LCI of .8 but a CSA match rate of .53, which means they cover 80% of their public education costs, but only match 53% of the funding for their private special education. On the other hand, a poorer locality like Manassas Park with an LCI of .267, pays more for private special education with a CSA match rate of .43 (Virginia Department of Education, 2019). Figure 3 displayed earlier in the problem analysis section reveals that this trend exists on a state-wide scale.

## ALTERNATIVE 2: Move to Census-Based State Funding

Census-based funding is a unique funding mechanism that allocates a fixed dollar amount per total enrollment or average daily membership (Ahearn, 2010). Rather than considering the number of children who require special education services, census-based funding redirects incentives such that districts that typically spend more on special education must pay for the difference by either raising taxes or reducing expenditures (Dhuey & Lipscomb, 2011). Census-based funding is a cost-containment strategy, and it was implemented by a handful of states in the 1990's including California, Pennsylvania, and New Jersey (Dhuey & Lipscomb, 2011). This option proposes that census-based funding replace the current match rate system for private special education funded by the CSA, which requires the state to pay an average of 65 percent of total costs and localities to pay a match rate. Instead, the amount of CSA money each locality receives can be determined with a two-step process:

- (1) 
$$\frac{\text{State CSA expenditures (\$)}}{\text{Total Enrollment of Students in Virginia}} = \text{Per student allocation (\$)}$$
- (2) 
$$\text{Per student allocation (\$)} * \text{Number of Students in Locality} = \text{Locality Amount for Private Special Education (\$)}$$

To estimate the per student allocation and the amount of funding a given locality would receive, this analysis projects a) a growth rate for the Virginia school-age population and b) an estimate for cost-of-living increases. First, the Weldon Cooper Center for Public Service creates grade enrollment projections for K-12 Virginia students. Although JLARC can request standard five-year projections from the Demographics Research Group for a small fee, this analysis utilizes the most recent public data from 2014. From 2014-2020, the Demographics Research Group projected an enrollment increase of about 1.5 percent (UVA Demographics Research Group, 2014). This estimate extends this same rate, 1.5 percent over 5 years to the years 2021-2030.

Based on these overall population changes and the CSA expenditures, localities will receive about \$87 per child in their locality in 2021, which will steadily increase to about \$100 per child in their locality for 2030 to account for increases in Cost Of Living Adjustments (COLA). As a comparison, the Office of Children's Services most recent study found that private special education services cost on average \$239 per day per student (Office of Children's Services, 2019c).

To get a sense of how much a locality may receive, consider Albemarle County as an example. Albemarle County has 18,458 students in its district, so they would receive about \$1.6 million for their special education students (see Equation 1 below). Because there were 1,356 private special education students in Albemarle, the state would pay about \$1,184 per student (see Equation 2 below). As a comparison, LEDRS data reveals that the average cost in 2019 for a student in Albemarle county was \$70,000. Under a census-based funding system, Albemarle county would need to raise revenue or cut costs to cover this difference.

An Example of Census-Based Funding: Albemarle's Allocation

$$\begin{aligned} 1) \quad & \$87 \text{ per student allocation} \times 18,458 \text{ total enrollment of Albemarle students} \\ & = \$1,600,000 \text{ locality amount} \end{aligned}$$

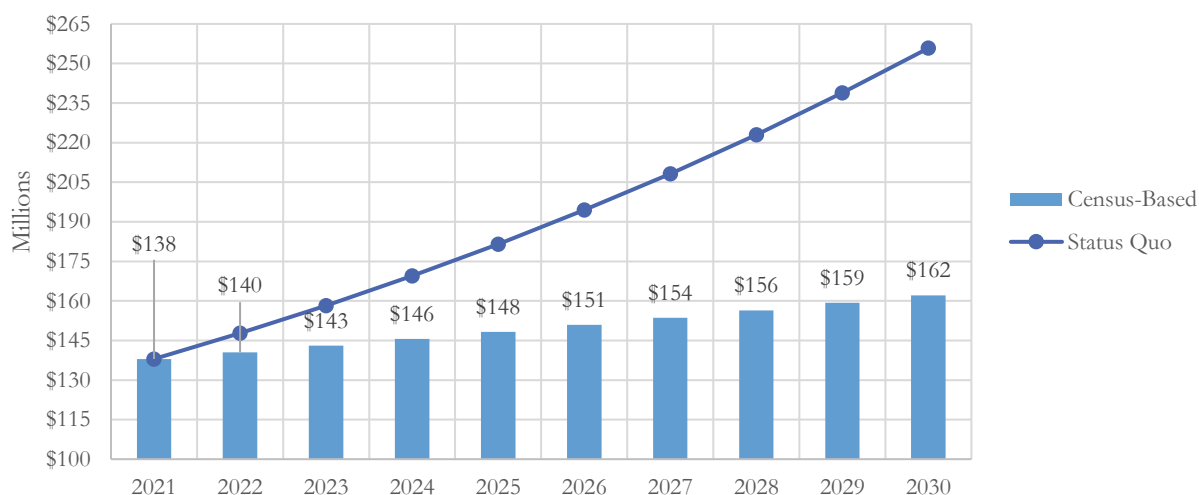
$$2) \quad \frac{\$1,600,000 \text{ locality amount}}{1,356 \text{ private special education students}} = \$1,184 \text{ per student}$$

## Analysis

**Cost:** To calculate the total state costs per year, this analysis begins with the projected status quo state CSA expenditures for 2021, which is about \$138 million, and projects for cost-of-living increases. This analysis uses the Cost-of-Living Adjustment (COLA) from the Virginia Retirement System (VRS) to estimate how the total CSA expenditures will increase over the next ten years. For July 1, 2020 the VRS reports a COLA of 1.81% (Virginia Retirement Service, n.d.). This analysis extends this rate of 1.81% for each year over the next ten years. This is the only value necessary to estimate the costs of the alternative for the state.

Using the present value formula with a rate of 3%, this alternative will cost the state about **\$1.31 billion** over the next ten years. With the calculations shown in Figure 5, this alternative will save the state about **\$293 million** over the next ten years compared to the status quo.

Figure 6: Census-Based State Budgetary Cost in Millions 2021-2030



**Legality:** This alternative maintains funding at or above the previous year's amount for the next ten years, so it means the requirements of the IDEA. It does not risk reductions in IDEA federal grants and ensures all students receive a free and appropriate education (Griffith, 2015). In addition, this alternative has been implemented in a handful of states since the 1990's (Ahearn, 2010).

**Feasibility:** This option is ranked **medium** in feasibility, because although census-based funding seems politically feasible, the overwhelming administrative burden makes this alternative less feasible overall.

Politically, census-based funding visibly reduces the cost burden of the state to cover private special education costs, particularly in the long run. Because this alternative has existed in a handful of states for decades, legislators will likely view this is policy in favorable terms as a demonstrable and concrete way to reduce costs. For administrative feasibility, however; this alternative fundamentally changes how localities are reimbursed for private special education and drastically changes their share of funding. Instead of reporting receipts through the data set Local Expenditures Data and Reimbursement System (LEDRS) and covering about 35% of the costs, localities would receive a fixed pool of money from the state and be left to cover the rest of expenditures. Consider the example of Albemarle given above. With census-based funding, this locality would have to find nearly \$60,000 per student per year compared to about \$30,000 per student per year at their normal match rate. Consequently, the burden will fall more heavily on localities 1) to fund any spending over the fixed dollar amount allocated by the states and 2) to find ways to contain the costs of private special education.

**Equity:** Based on the literature review of census-based funding, this option ranks **low** due to both geographic and socioeconomic equity implications.

The literature reveals that census-based funding may harm geographic areas with a higher concentration of special education students and that poorer areas may feel costs burden even more acutely. In 2010, researchers studied census-based states New Jersey and Pennsylvania and found geographic clusters with more special education students along with statistically significant relationships between census disability rates, poverty rates, geographic locations, and school district classification rates (Baker & Ramsey, 2010). In addition, when examining all nine states with census-based funding systems, Dhuey and Lipscomb found that this financing system is associated with a rising local share of funding (Dhuey & Lipscomb, 2011).

### ALTERNATIVE 3: Align the CSA Match Rate with the Local Composite Index of Ability-To-Pay (LCI)

The CSA currently expects localities to cover private day placement costs for children with special education services based on match rates from the actual total 1997 program expenditures for the CSA, while the state pays the remainder (*2019 Virginia Assembly Appropriations Act Chapter 854*, 2019) . In 2019, CSA match rates ranged from 16 percent in Lunenburg to about 53 percent in Alexandria. On average, localities pay about a 36 percent match rate (Office of Children’s Services, 2019b). Based on research conducted at the district-level, localities are responsive to financial incentives and state funding formulas for special education (Battisti et al., 2012; Kwak, 2010). Restructuring the match rate will reduce the burden of the state and incentivize localities to negotiate lower rates with private providers in their district.

This option reduces state CSA costs by shifting a greater burden onto localities with a modernized match rate, the Local Composite Index of Ability-to Pay (LCI). The Virginia Department of Education decides the LCI, and it is calculated based on the locality’s true value of real property, adjusted gross income, and taxable retail sales. In addition, LCI is weighted by average daily membership and the general population (Virginia Department of Education, 2018). As of the final 2020-2022 estimates, county match rates ranged from 17% in Lee to 80% in localities like Alexandria, Fairfax, and Arlington (Virginia Department of Education, 2019). On average, localities pay about a 45% match rate (Virginia Department of Education, 2018). With this alternative, the average match rate paid by localities would be about 45% rather than the current average CSA local match rate of 36%.

## Analysis

**Cost:** To calculate the total cost of shifting to an LCI rate, this analysis estimates the state will pay about 55% of the net CSA expenditures each year for ten years. Using the same estimates from the status quo for both the increase in students and the increases in cost per child, this alternative will cost about **\$1.36 billion** over the next ten years and save the state **about \$247 million** over the next ten years. Figure 7 displays that the savings per year increases as this new funding formula continues.

Figure 7: LCI Match Rate State Budgetary Cost in Millions 2021-2030



**Legality:** Although this alternative does *not* maintain state funding at or above the previous year's amount for the next ten years, it does not change the *total* amount of CSA spending, which confirms legality. This option changes revenue sources and the special education formula, which is permitted in the IDEA and still ensures all students receive a free and appropriate education.

**Feasibility:** This option ranks **high** for both political feasibility and administrative feasibility. Politically, this adjustment modestly adjusts the average locality burden but effectively reducing costs. The funding structure remains fundamentally the same; localities will continue to report their expenditures to the state with LEDRS, and states will still reimburse localities based on their match rate. In addition, this option uses match rates that have already been widely used in the Commonwealth by the Virginia Department of Education, so instead of borrowing a new funding formula from another state, this option allows decisionmakers to employ a within-state formula to the CSA.

Administratively, this adjustment does not change the infrastructure or duties of state and local stakeholders. Private providers are still held accountable to localities and states through LEDRS. Because the average increase is moderate – from an average of 36% to 45% – localities will be able to adjust to new rates because they are the same rates they already pay for public education.



**Equity:** This option ranks **high** in socioeconomic and geographical equity because LCI rate embeds both socioeconomic and geographic factors within its formula. Socioeconomic factors are considered in the formula with relative measures of local financial resources relative to the state's average. LCI uses the true value of real property (weighted at 50%), the adjusted gross income (weighted at 40%), and taxable retail sales (weighted at 10%) to quantify the relative financial resources of a locality. Geography is factored next using both average daily membership, or the number of students in the locality (weighted 67%), and the general population (weighted 33%) (Virginia Department of Education, 2018).

## ALTERNATIVE 4: Utilize Single-Student Weight State Funding

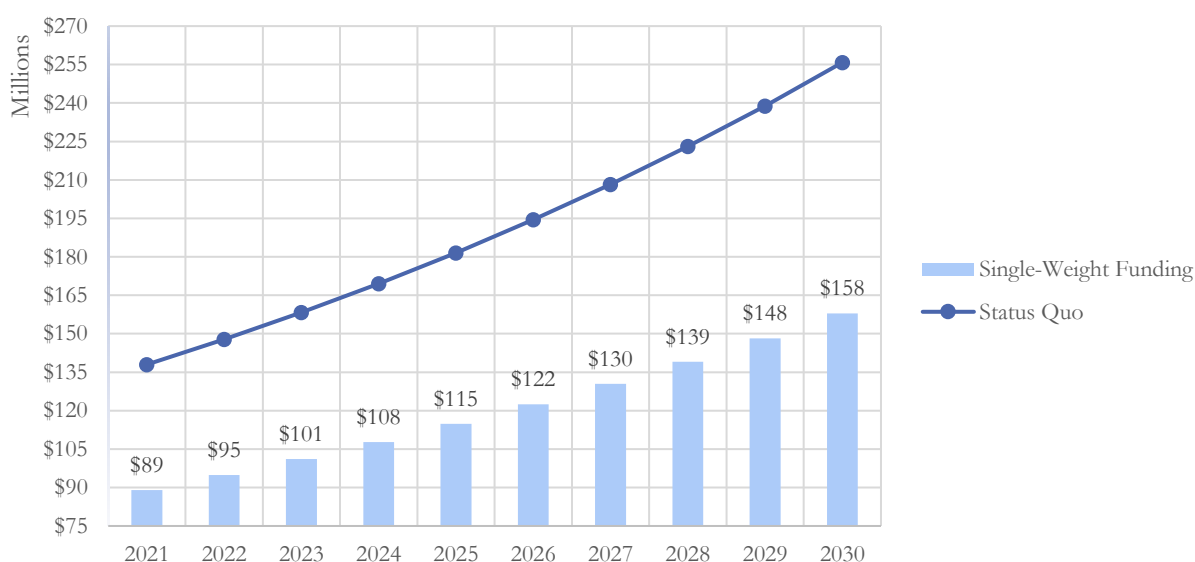
According to Ahearn's 2010 survey of special education funding models, student weighting was the most common form of funding among states. Although there are two kinds of student weighting, this alternative recommends single-student weighting, which allocates a single multiple of the general education amount or a fixed dollar amount per private special education student.

According to the Education Commission of the States, which updated its funding formulas in 2015, ten states utilized single-student weights ranging from .082 to 1.7 (Education Commission of the States, 2015). This alternative recommends the weight from the state of New York, which utilizes a minimum weighting ratio of .50 for its private special education providers called the Private Excess Cost ratio (The University of the State of New York, n.d.). New York's rate was selected because it fell modestly between the .082 to 1.7 range, and because New York is a more comparable benchmark state than other single-weight states like Rhode Island, North Dakota, and Oregon. This alternative allocates CSA money for each locality based on the average per-pupil amount times .50 for each child that requires private special education services.

## Analysis

**Cost:** Figure 8 outlines the calculations of this option. First, this analysis estimates the average cost per pupil and increases it yearly by the COLA. According to the most recent publicly available data from FY 2018, Virginia spent an average of \$12,548 per pupil (Virginia Department of Education, n.d.). Consistent with the census-based alternative, this estimate includes an increase in COLA of 1.5% each year for ten years. Next, this per-pupil cost is multiplied by the number of students who receive private special education services. This analysis uses the same population projections as the previous alternatives, with an increase of about 5% each year. Based on these estimates, a single-student weight funding structure will cost about **\$1.01 billion** over ten years and save the state **\$594 million** over ten years.

Figure 8: Single-Weight Funding State Budgetary Cost in Millions, 2021-2030



**Legality:** Although this alternative does *not* maintain state funding at or above the previous year's amount for the next ten years, it does not change the total amount of CSA spending because localities will be mandated to cover the rest of the costs. This option changes revenue sources and the special education formula, which is permitted in the IDEA and still ensures all students receive FAPE. In addition, a majority of states use some weighting structure in financing special education— whether single- or multiple-weights – this alternative will ensure all students receive a free and appropriate education (Ahearn, 2010).

**Feasibility:** This option is ranked **medium** on feasibility because although it does not present additional administrative burden, it does not build on the political agenda thus far.

This option ranks low on political feasibility because it does not build on the Virginia General Assembly agenda thus far. The most recent report for the General Assembly was presented in October 2019 and included a rate methodology for private special education providers so legislators could better understand the costs (Office of Children’s Services, 2019c). This report only included cost information from about 40% of providers, and the Public Consulting Group recommended more thorough data collection before identifying a comprehensive rate methodology. With these findings, it is unlikely legislators will find credibility in the selected rate of .50 and consequently this method of financing.

It is important to note that when comparing the single-weight student allocation with the average annual cost per child, this analysis projects that localities will pay on average 60% of the costs under this alternative compared to their current 35% match rate. Because localities will receive a fixed amount of funds regardless of the needs of their students, the problem of high costs shifts from the state to over 120 localities.

Administratively, single-student weighted funding does not alter the paperwork or processes of stakeholders, so this option is highly feasible from an administrative perspective.

**Equity:** This option is ranked at a **medium** for equity, because it does not have disparate geographic impacts but does perpetuate socioeconomic inequities.

Because single-weight funding provides the same amount of funding for each special education student regardless of their geography, this financing system is equitable between urban and rural special education students.

Based on the literature, it is likely that this funding mechanism will perpetuate socioeconomic inequalities. Conlin and Jaliveland (Conlin & Jalilevand, 2015) investigated the special education financing system of Michigan, which uses a combination of per-pupil funding and cost reimbursement. Using a dataset of annual enrollment and financial information, they found that wealthier school districts spent significantly more per pupil. In addition, they found that poorer districts have larger special education populations, and these students may have a varying level of need compared to wealthier districts.

## OUTCOMES MATRIX AND RECOMMENDATION

Table 2: Outcomes Matrix

	<b>Cost (\$ Saved from 2021-2030)</b>	<b>Legality (Yes/No)</b>	<b>Feasibility (High/Medium/Low)</b>	<b>Equity (High/Medium/Low)</b>
<b>1: Let present trends continue</b>	N/A; serves as baseline	Yes	Medium  Administratively feasible but not politically feasible	Medium  Geographically but not socioeconomically equitable
<b>2: Move to census-based funding</b>	\$293 million	Yes	Medium  Politically feasible but not administratively feasible	Low  Neither socioeconomically nor geographically equitable
<b>3: Align the CSA match rate to the Local Composite Index of Ability-to-pay (LCI).</b>	\$247 million	Yes	High  Both administratively and politically feasible	High  Both geographically and socioeconomically equitable
<b>4: Utilize single-student weight funding</b>	\$594 million	Yes	Administratively but not politically feasible	Medium  Geographically but not socioeconomically equitable

**RECOMMENDATION:** *Align the locality match rate with the Virginia Department of Education’s Local Composite Index of Ability-To-Pay (LCI) to reduce the cost burden of the state.*

As displayed in Table 2, this analysis recommends Alternative 3, aligning the CSA match rate with the LCI rates. This analysis rejected the status quo (Alternative 1) because the General Assembly has been actively searching for ways to reduce costs over the past five years by requesting research and placing the provider rate cap in the Appropriations Act. As this issue continues to come up in the policy agenda and with the upcoming study requirement for JLARC, inaction was not the best way to tackle the problem. In addition, this analysis provided new insight into the socioeconomic inequities in funding and geographic inequities in representation, revealing further evidence for action.

Although census-based funding presented a creative option implemented by multiple states, this option places enormous new financial burdens on localities to raise revenue or cut costs. In addition, the literature revealed negative equity implications across wealth and geography, so this option was rejected.

It is important to note that this recommendation has trade-offs. First, it does not reduce costs as significantly as the single-weight student option because using the LCI maintains the existing match rate financing. On the other hand, this recommendation ranks higher than single-weight student funding in both the feasibility and equity criteria. From a feasibility perspective, the LCI already exists as reliable measure for ability-to-pay in Virginia which makes it easier for legislator buy-in. In addition, this adjustment does not change reimbursement or administrative functions at the locality level. From an equity perspective, the LCI embeds geographic and socioeconomic equity into its formula, which is reviewed biennially by the Virginia Department of Education. Because the current CSA match rates have not been revised since 1997, the LCI is a more current and equitable measure of localities' ability-to-pay for private special education.

Furthermore, adjusting the CSA match rates does not negate the policy agenda of the General Assembly but rather builds upon it. The previous reports for private provider performance measures and rate methodology will still be valuable to understanding the quality and costs of the care students receive. In adjusting the CSA match rates, the General Assembly can concretely mitigate costs beginning as early as 2021, as it continues to gather information about the problem of increasing students and rising costs.

## IMPLEMENTATION

Because this analysis recommends a change that impacts all localities across Virginia, it is critical to include thoughtful implementation plans. This section includes a step-by-step process for changing the rates following its passage in the Appropriations Act. Next, this section includes a phase-in process for localities. Finally, this analysis discusses stakeholder perspectives and the additional risks of this recommendation.

### Implementation Steps

1. *Notification of Local Match Rate Change:* Upon adopted changes to the Appropriations Act, the Office of Children's Services will notify localities that their CSA match rate will be changing in the next fiscal year through an Administrative Memo. The Administrative Memo will include the current match rate for every locality, the new LCI rate, and the percent change, explaining how the new rates will marginally increase locality burden and modernize the rates to match ability-to-pay. The Director of OCS will request each Community Policy and Management Team: a) submit procedures on how they will accommodate these funding shifts and b) coordinate with private providers on policy and funding changes by December 31 of the calendar year.

2. *Reporting Expenditure Data:* CPMTs and private providers will gather expenditure data over the fiscal year and report it in LEDRS. Fiscal years begin July 1 of the previous calendar year until July 1 of the following calendar year. CPMTs have until midnight of September 30 to report expenditures into the LEDRS system. Over the fiscal year, Local CSA Coordinators will review expenditures, project state pool reimbursement, and plan for how localities will cover their costs with the new locality match rate.
3. *State Pool Funds Reimbursement:* Just before the end of the fiscal year, OCS will send an Administrative Memo outlining reporting requirements and restating the adjusted locality rates so the state can reimburse their portion of CSA funds back to localities.
4. *New LCI Rates from Virginia Department of Education (VDOE):* Because the LCI rates are adjusted every two years, the Office of Children's Services will coordinate with VDOE to ensure CSA local match rates remain current with LCI rates.

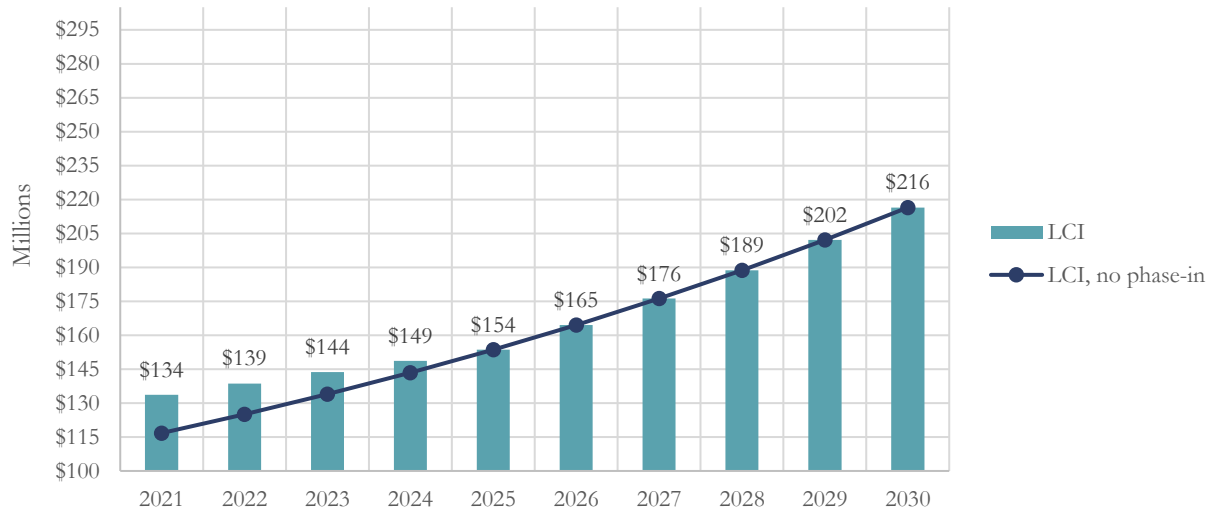
### Locality Rate Phase-In Process

Although some localities may see dramatic increases, on average, localities will see about a ten-percentage point change in their CSA match rates when transitioning to LCI rates. Please see Appendix C to see the percentage point difference for each locality. As a result, this analysis recommends a phase-in strategy that requires every locality to pay their LCI match rate within five years of adoption in the Appropriations Act. This means, on average, localities will see a two-percentage point increase in their private special education burden every year for five years. While this reduces the state budgetary cost savings in the short run, this phase-in ensures that localities can cut costs or raise tax revenue at a sustainable rate to cover their new burden.

Similarly, the state will implement a phase-in to ensure that localities who are currently over-paying based on the outdated CSA match rate receive support at the new LCI rates. The state will follow a 5-year phase in as well, such that localities who are paying more in the CSA rate will see their costs reduced incrementally to meet the LCI rate by the end of the five years.

Figure 9 shows a simplified cost estimate of a phase-in implementation. The state CSA burden incrementally decreases from 65% to 55% by 2 percentage points per year from 2021-2025 and maintains 55% through 2030. Under the phase-in, the state would save **\$204 million** over ten years, compared to the **\$247 million** displayed in the Outcomes Matrix (Table 2).

Figure 9: Phase-In of LCI Recommendation in Millions, 2021-2030





### Stakeholder Perspectives and Additional Risks

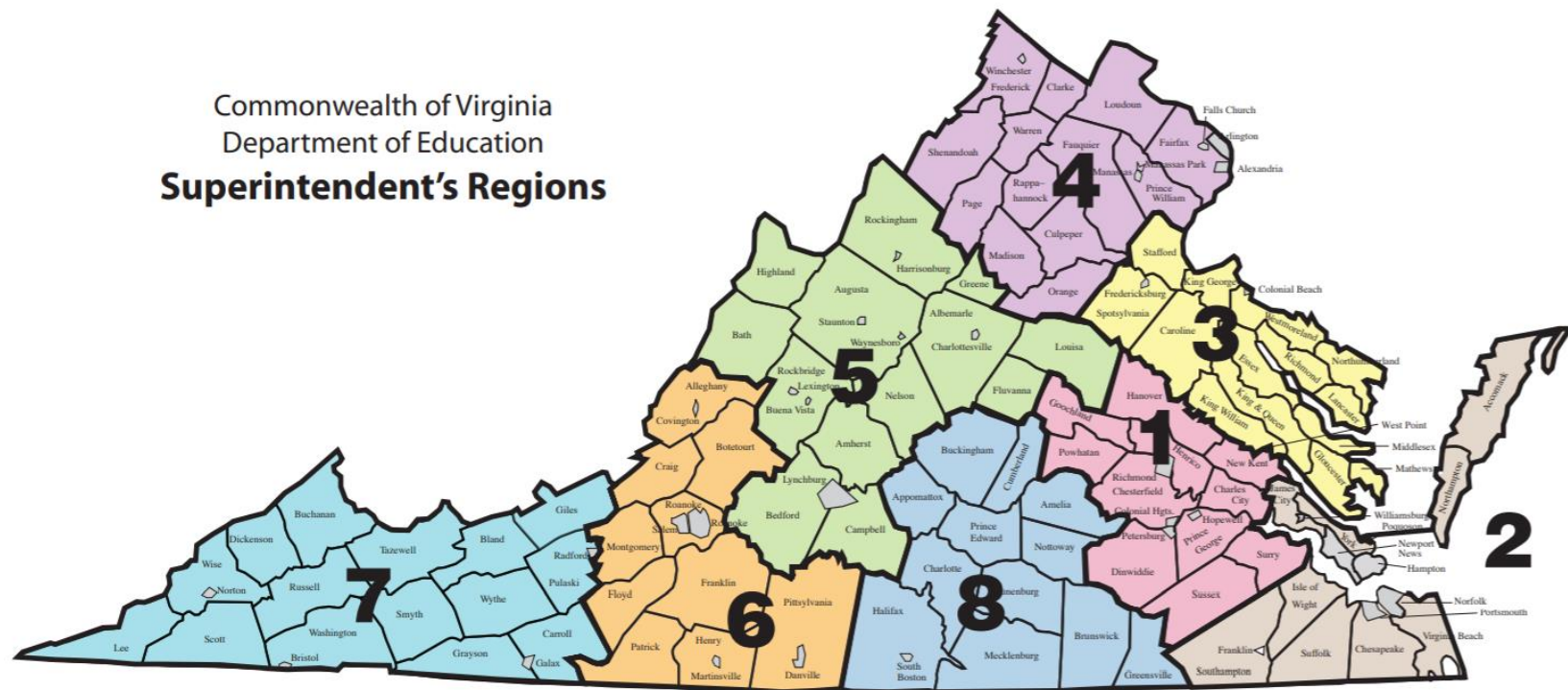
Because this policy does not directly change the care students receive or dramatically alter the operations of the Office of Children's Services, the primary concern is the perspective of CSA stakeholders at the local level. CSA Coordinators and members of the CPMTs may be resistant to the new fiscal burden on their locality. They may feel their hands are tied, because the costs come from private providers, who localities cannot directly regulate. In addition, some localities may feel these fiscal changes more acutely than others. Some localities will see significant increases in their match rate, while others may see no change. As a result, it is important that the Office of Children's Services frame this match rate change as a modernization and an increase in efficiency that ensures all children can continue to receive care.

This analysis also recognizes additional risks of this recommendation. One worst-case scenario is that one or more localities will not have the funds to cover their share of costs. The CSA already has a mechanism to address localities who lack sufficient funds called Supplemental State Allocations, where localities can submit electronic requests before the close of program year for mandated expenditures (*User Guide for the Children's Services Act*, 2018). With these adjusted match rates, it may be necessary for the CSA to allocate more money to the Supplemental State Allocation of the CSA fund to prepare for increased need.

Another risk is that private special education day providers may decrease the quality of care in response to the change in state allocations. Because Virginia does not have data on the current quality of care for these placements, it is uncertain how likely it is for quality to decrease. With this risk, however, it is increasingly important for the Virginia Department of Education to gather Private Day Special Education Outcomes as recently mandated for the 2019-2020 school year (Office of Children's Services & Virginia Department of Education, 2018).

## Appendix A: Virginia's Superintendent's Regions

Source: [http://www.doe.virginia.gov/directories/va\\_region\\_map.pdf](http://www.doe.virginia.gov/directories/va_region_map.pdf)



## Appendix B: Regions and Localities

Source: Virginia Department of Education, *Virginia Public School Listing by Region*. Available at [http://www.doe.virginia.gov/directories/schools/school\\_info\\_by\\_regions.shtml](http://www.doe.virginia.gov/directories/schools/school_info_by_regions.shtml)

### **Region 1 – Central Virginia**

Charles City County  
Chesterfield County  
Colonial Heights  
Dinwiddie County  
Goochland County  
Hanover County  
Henrico County  
Hopewell  
New Kent County  
Petersburg  
Powhatan County  
Prince George County  
Richmond  
Surry County  
Sussex County

### **Region 2 – Tidewater**

Accomack County  
Chesapeake  
Franklin  
Hampton  
Isle of Wight County  
James City County (go to  
Williamsburg-James City  
County)  
Newport News  
Norfolk  
Northampton County  
Poquoson  
Portsmouth  
Southampton County  
Suffolk  
Virginia Beach  
Williamsburg-James City  
County  
York County

### **Region 3 – Northern Neck**

Caroline County  
Colonial Beach  
Essex County  
Fredericksburg  
Gloucester County  
King George County  
King William County  
King and Queen County  
Lancaster County  
Mathews County  
Middlesex County  
Northumberland County  
Richmond County  
Spotsylvania County  
Stafford County  
Westmoreland County  
West Point

### **Region 4 – Northern Virginia**

Alexandria  
Arlington County  
Clarke County  
Culpeper County  
Fairfax County  
Falls Church  
Fauquier County  
Frederick County  
Loudoun County  
Madison County  
Manassas  
Manassas Park  
Orange County  
Page County  
Prince William County  
Rappahannock County  
Shenandoah County  
Warren County  
Winchester

**Region 5 – Valley**

Albemarle County  
Amherst County  
Augusta County  
Bath County  
Bedford County  
Buena Vista  
Campbell County  
Charlottesville  
Fluvanna County  
Greene County  
Harrisonburg  
Highland County  
Lexington  
Louisa County  
Lynchburg  
Nelson County  
Rockbridge County  
Rockingham County  
Staunton  
Waynesboro

**Region 6 – Western**

Virginia  
Alleghany County  
Botetourt County  
Covington  
Craig County  
Danville  
Floyd County  
Franklin County  
Henry County  
Martinsville  
Montgomery County  
Patrick County  
Pittsylvania County  
Roanoke  
Roanoke County  
Salem

**Region 7 – Southwest**

Bland County  
Buchanan County  
Bristol  
Carroll County  
Dickenson County  
Galax  
Giles County  
Grayson County  
Lee County  
Norton  
Pulaski County  
Radford  
Russell County  
Scott County  
Smyth County  
Tazewell County  
Washington County  
Wise County  
Wythe County

**Region 8 – Southside**

Amelia County  
Appomattox County  
Brunswick County  
Buckingham County  
Charlotte County  
Cumberland County  
Greensville County  
Halifax County  
Lunenburg County  
Mecklenburg County  
Nottoway County  
Prince Edward County

## Appendix C: CSA vs. LCI Match Rates by Locality

#	Division	CSA	LCI	Difference in Percentage Points (Absolute Value)	Percent Change
001	ACCOMACK	23.32%	33.74%	10%	-31%
002	ALBEMARLE	44.74%	64.49%	20%	-31%
003	ALLEGHANY	19.24%	28.19%	9%	-32%
004	AMELIA	32.68%	34.79%	2%	-6%
005	AMHERST	27.22%	31.41%	4%	-13%
006	APPOMATTOX	26.39%	29.78%	3%	-11%
007	ARLINGTON	46.02%	80.00%	34%	-42%
008	AUGUSTA	33.02%	37.69%	5%	-12%
009	BATH	42.78%	80.00%	37%	-47%
010	BEDFORD 2	31.11%	31.32%	0%	-1%
011	BLAND	21.09%	33.80%	13%	-38%
012	BOTETOURT	36.02%	39.75%	4%	-9%
013	BRUNSWICK	24.39%	42.90%	19%	-43%
014	BUCHANAN	31.56%	29.75%	2%	6%
015	BUCKINGHAM	20.23%	34.22%	14%	-41%
016	CAMPBELL	31.07%	28.78%	2%	8%
017	CAROLINE	33.08%	35.53%	2%	-7%
018	CARROLL	29.10%	27.49%	2%	6%
019	CHARLES CITY	31.31%	58.80%	27%	-47%
020	CHARLOTTE	22.04%	24.44%	2%	-10%
021	CHESTERFIELD	38.53%	35.84%	3%	8%
022	CLARKE	47.97%	57.29%	9%	-16%
023	CRAIG	29.01%	33.36%	4%	-13%
024	CULPEPER	37.67%	37.41%	0%	1%
025	CUMBERLAND	30.40%	29.78%	1%	2%
026	DICKENSON	30.42%	24.71%	6%	23%
027	DINWIDDIE	33.58%	28.79%	5%	17%
028	ESSEX	38.53%	46.36%	8%	-17%
029	FAIRFAX COUNTY	45.84%	65.41%	20%	-30%
030	FAUQUIER	45.84%	58.79%	13%	-22%
031	FLOYD	23.24%	34.18%	11%	-32%
032	FLUVANNA	38.11%	39.40%	1%	-3%
033	FRANKLIN COUNTY	28.30%	39.53%	11%	-28%
034	FREDERICK	43.48%	41.20%	2%	6%
035	GILES	28.98%	26.95%	2%	8%
036	GLOUCESTER	36.87%	38.85%	2%	-5%
037	GOOCHLAND	48.71%	80.00%	31%	-39%
038	GRAYSON	21.09%	36.15%	15%	-42%

039	GREENE	34.71%	34.46%	0%	1%
040	GREENSVILLE	22.66%	27.99%	5%	-19%
041	HALIFAX	23.35%	30.58%	7%	-24%
042	HANOVER	44.44%	46.26%	2%	-4%
043	HENRICO	37.55%	42.79%	5%	-12%
044	HENRY	27.86%	22.53%	5%	24%
045	HIGHLAND	38.22%	80.00%	42%	-52%
046	ISLE OF WIGHT	36.13%	39.64%	4%	-9%
047	JAMES CITY	44.83%	55.53%	11%	-19%
048	KING GEORGE	36.27%	37.03%	1%	-2%
049	KING AND QUEEN	31.44%	41.39%	10%	-24%
050	KING WILLIAM	38.53%	34.07%	4%	13%
051	LANCASTER	43.91%	78.35%	34%	-44%
052	LEE	22.45%	16.92%	6%	33%
053	LOUDOUN	47.65%	54.66%	7%	-13%
054	LOUISA	44.01%	54.06%	10%	-19%
055	LUNENBURG	16.98%	25.61%	9%	-34%
056	MADISON	33.55%	47.38%	14%	-29%
057	MATHEWS	42.71%	51.62%	9%	-17%
058	MECKLENBURG	22.86%	39.96%	17%	-43%
059	MIDDLESEX	43.33%	60.08%	17%	-28%
060	MONTGOMERY	28.34%	40.05%	12%	-29%
062	NELSON	31.32%	56.04%	25%	-44%
063	NEW KENT	43.29%	41.66%	2%	4%
065	NORTHAMPTON	19.71%	46.96%	27%	-58%
066	NORTHUMBERLAND	33.04%	71.16%	38%	-54%
067	NOTTOWAY	26.86%	25.97%	1%	3%
068	ORANGE	40.83%	41.05%	0%	-1%
069	PAGE	28.65%	31.98%	3%	-10%
070	PATRICK	25.39%	24.56%	1%	3%
071	PITTSYLVANIA	23.55%	24.46%	1%	-4%
072	POWHATAN	43.42%	45.07%	2%	-4%
073	PRINCE EDWARD	22.32%	35.54%	13%	-37%
074	PRINCE GEORGE	37.16%	24.67%	12%	51%
075	PRINCE WILLIAM	34.14%	37.99%	4%	-10%
077	PULASKI	29.23%	32.35%	3%	-10%
078	RAPPAHANNOCK	41.99%	79.90%	38%	-47%
079	RICHMOND COUNTY	32.27%	31.20%	1%	3%
080	ROANOKE COUNTY	43.97%	36.60%	7%	20%
081	ROCKBRIDGE	23.36%	45.06%	22%	-48%
082	ROCKINGHAM	34.45%	37.99%	4%	-9%

083	RUSSELL	18.94%	23.73%	5%	-20%
084	SCOTT	31.54%	18.99%	13%	66%
085	SHENANDOAH	35.17%	38.32%	3%	-8%
086	SMYTH	23.37%	22.28%	1%	5%
087	SOUTHAMPTON	32.30%	30.15%	2%	7%
088	SPOTSYLVANIA	45.88%	37.22%	9%	23%
089	STAFFORD	44.39%	34.70%	10%	28%
090	SURRY	39.79%	80.00%	40%	-50%
091	SUSSEX	23.87%	34.92%	11%	-32%
092	TAZEWELL	24.55%	25.75%	1%	-5%
093	WARREN	38.53%	44.32%	6%	-13%
094	WASHINGTON	27.60%	34.16%	7%	-19%
095	WESTMORELAND	30.25%	46.18%	16%	-34%
096	WISE	27.55%	23.72%	4%	16%
097	WYTHE	27.08%	32.04%	5%	-15%
098	YORK	38.88%	38.12%	1%	2%
101	ALEXANDRIA	53.09%	80.00%	27%	-34%
102	BRISTOL	25.47%	30.51%	5%	-17%
103	BUENA VISTA	23.29%	18.93%	4%	23%
104	CHARLOTTESVILLE	30.68%	68.86%	38%	-55%
106	COLONIAL HEIGHTS	40.27%	41.56%	1%	-3%
107	COVINGTON	24.96%	29.13%	4%	-14%
108	DANVILLE	22.23%	26.22%	4%	-15%
109	FALLS CHURCH	46.11%	80.00%	34%	-42%
110	FREDERICKSBURG	34.41%	58.40%	24%	-41%
111	GALAX	31.46%	27.75%	4%	13%
112	HAMPTON	32.23%	27.43%	5%	17%
113	HARRISONBURG	38.08%	35.37%	3%	8%
114	HOPEWELL	26.67%	20.53%	6%	30%
115	LYNCHBURG	27.36%	36.68%	9%	-25%
116	MARTINSVILLE	33.21%	21.85%	11%	52%
117	NEWPORT NEWS	27.73%	28.42%	1%	-2%
118	NORFOLK	24.55%	30.59%	6%	-20%
119	NORTON	32.54%	27.10%	5%	20%
120	PETERSBURG	35.35%	24.42%	11%	45%
121	PORTSMOUTH	26.05%	24.26%	2%	7%
122	RADFORD	20.35%	24.52%	4%	-17%
123	RICHMOND CITY	36.91%	46.88%	10%	-21%
124	ROANOKE CITY	30.72%	32.84%	2%	-6%
126	STAUNTON	26.99%	38.77%	12%	-30%
127	SUFFOLK	24.32%	34.87%	11%	-30%

128	VIRGINIA BEACH	35.69%	40.82%	5%	-13%
130	WAYNESBORO	38.43%	36.52%	2%	5%
131	WILLIAMSBURG	45.53%	74.59%	29%	-39%
132	WINCHESTER	45.87%	43.19%	3%	6%
134	FAIRFAX CITY	46.11%	80.00%	34%	-42%
135	FRANKLIN CITY	37.10%	29.29%	8%	27%
136	CHESAPEAKE	37.15%	34.86%	2%	7%
137	LEXINGTON	33.02%	39.20%	6%	-16%
138	EMPORIA	22.66%	22.28%	0%	2%
139	SALEM	35.11%	36.41%	1%	-4%
142	POQUOSON	27.87%	37.03%	9%	-25%
143	MANASSAS	41.68%	36.11%	6%	15%
144	MANASSAS PARK	42.73%	27.55%	15%	55%
202	COLONIAL BEACH		33.17%	33%	
207	WEST POINT		26.14%	26%	



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