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To: District Superintendents, Superintendents and Executive Directors of Approved Programs Serving Students with Disabilities, County Officials, Office of Special Education

From: Suzanne Bolling

Subject: Tuition Rate Setting Methodology for 2014-15 Tuition Rates for School-Age Providers Serving Students with Disabilities

Date: September 3, 2014

The 2014-15 tuition rate setting methodology provides a 3.8 percent trend factor for the 2014-15 school year and includes a number of modifications to enhance funding stability for school-age providers serving students with disabilities. These reforms are based on recommendations of the Special Education Financial Advisory workgroup and were approved by both the Board of Regents and the Division of the Budget for the 2014-15 school year. The changes are intended to assist school-age providers by mitigating the impact of significant enrollment changes on per diem rates/tuition revenue and by streamlining the process of issuing final rate reconciliations, in cases where the fiscal impact is minimal. Specifically, the following three reforms are applied to the 2014-15 tuition methodology for school-age program providers:

1. To reduce the impact of enrollment declines, an enrollment adjustment factor will be applied as part of the rate reconciliation process in order to stabilize tuition revenue on a time-limited basis. When an unexpected, substantial enrollment decline occurs, it may be difficult for providers to immediately adjust staffing patterns and spending commensurate with the loss in enrollment. This enrollment adjustment factor will give such providers more time to make necessary changes to either increase enrollment or restructure programs.
2. Short-term growth in enrollment can result in a lower tuition rate – one that future rates are based upon even when enrollment returns to prior levels. To reduce the impact of a short-term increase or spike in enrollment on future tuition rates for providers, the rate methodology has been revised to utilize the higher of two rates from different points in time (adjusted for approved trend factors) as the basis of the total cost screen calculation when such circumstance occurs. This measure will serve to stabilize tuition revenue from year-to-year.

3. To streamline the current rate reconciliation process, the methodology has been modified to eliminate final rate reconciliations where providers would experience less than a one percent change in the per-student reimbursement rate. This reform intends to eliminate the administrative work for approved providers associated with rate reconciliation in cases where the fiscal impact is minimal.

The intent of the first reform is to mitigate the impact of the total cost screen following a significant enrollment decrease. Specifically, the 2014-15 reconciliation rate calculation will employ the lesser of the three year average enrollment-to-capacity percent or 90 percent of the reported enrollment capacity in the calculation of the adjusted per diem used in the total cost screen calculation if a program's 2014-15 enrollment-to-capacity percent decreases by 10 percentage points or more from its prior three year average enrollment-to-capacity percent. Please refer to the glossary on page 7 of this memorandum for a definition of enrollment-to-capacity percent and its components. If the enrollment-to-capacity percent does not decrease by 10 percentage points or more from its prior three year average, the adjusted per diem in the total cost screen calculation will be based on actual care days in the same manner as the 2013-14 rate setting methodology. For 2014-15 prospective rates, the adjusted per diem used in the total cost screen will be calculated using 2012-13 actual adjusted care days for all providers whose 2014-15 prospective rates are based on 2012-13 actual data. It is important to note that the reform described in this paragraph will be applied to rate-setting for approved private schools educating students with disabilities (otherwise known as 853 schools) and Special Act School Districts. This change to the methodology will not be applicable to tuition rates for Extended School Year (July/August) Special Education Programs operated by public school districts or BOCES (also known as "summer only programs").

The second reform intends to address the impact on tuition rates of an enrollment increase causing a prior year's tuition rate decline by expanding the prior period per diem used in the calculation of the total cost screen to two options. This reform will be introduced beginning with the 2014-15 reconciliation rate calculation where, in most cases, the prior period per diem used in the total cost screen calculation will be the greater of the 2014-15 prospective per diem rate or the 2013-14 reconciliation per diem rate plus the approved trend factor. Beginning in 2015-16, this approach will also be applied to the prospective rates where, for the 2015-16 prospective rate, the prior period per diem used in the total cost screen calculation will be the greater of the 2014-15 prospective per diem rate plus any applicable trend factor approved for 2015-16, or the 2013-14 reconciliation per diem rate plus the 2014-15 approved trend factor and any applicable trend factor approved for 2015-16.

It is important to note that this option is intended to address ongoing operational expenses, and is not available in circumstances where the higher per diem rate is a prospective per diem rate (for the 2014-15 reconciliation rate this would be the 2014-15 prospective per diem rate) that includes expenses for capital, interest or depreciation added via a waiver to the approved tuition methodology for the current or prior year's tuition rate, or in cases where the rate has not been appropriately adjusted to reflect an audit that has been issued. The Department also reserves the right to not apply this change to the methodology where the prospective rate

includes one-time costs, is based on a budget, or if its application would result in an inappropriate benefit. Furthermore, this option will be applied to rate-setting for 853 schools and Special Act School Districts and would not apply to summer only programs.

Also, this second reform measure will be calculated without factoring a change in rate that may occur as a result of the first reform measure. For example, the 2014-15 reconciliation per diem to be used in the calculation of the 2015-16 reconciliation and 2016-17 prospective tuition rates will be exclusive of the amount added back to the 2014-15 reconciliation rate due to the first reform (an enrollment-to-capacity percent decline of 10 percentage points or greater) as described above. Please also note that the two reform measures described above will not result in reimbursement to providers above total allowable costs.

The third reform intends to eliminate rate reconciliation in cases where the fiscal impact is minimal. Specifically, reconciliation tuition rates/tuition adjustment factors will not be issued if the reconciliation per diem rate differs from the prospective per diem rate by less than 1 percent. If the 2014-15 reconciliation per diem differs from the 2014-15 prospective per diem rate by less than 1% then the 2014-15 prospective rate will become the final rate subject to audit; this final rate subject to audit will be the basis for the 2016-17 prospective rate. This change will no longer require providers to resubmit bills for reconciliation rate changes that would result in small adjustments to reimbursements based on final actual data.

Further details of how these reforms will impact the school age tuition rate setting methodology are described in detail below; for more information please see also the following webpage for examples of how the school-age rates will be calculated incorporating these reforms:

[http://www.oms.nysed.gov/rsu/Rates Methodology/MethodLetters/home.html](http://www.oms.nysed.gov/rsu/Rates%20Methodology/MethodLetters/home.html)

Section I: General Rate Setting Methodology

The following methodology components may be used in whole or in part, pursuant to Section 200.9 of the Regulations of the Commissioner, to establish the 2014-15 tuition rates. Generally, the 2014-15 tuition rates for programs that were in operation during the 2012-13 school year are based on reported 2012-13 financial data. Approved appeal items from prior years and any approved for the 2014-15 school year will be reviewed and, if appropriate, included in the calculation of the 2014-15 rate. As in previous years, each provider's financial data is reviewed by staff of the Rate Setting Unit (RSU) and any necessary adjustments are made in accordance with Section 200.9 of the Commissioner's Regulations and the Reimbursable Cost Manual (RCM), as applicable. This process is completed prior to the application of cost screens. The basic components of the tuition rate setting methodology and variable factors used to calculate the 2014-15 tuition rates are described below:

A. Prospective Trend Factor

School-Age Programs

A 3.8 percent trend factor is approved for the 2014-15 school year for school-age programs. A factor of 6.9 percent which represents the compounding of the approved prospective trend factors of 3.0 percent for the 2013-14 and 3.8 percent for the 2014-15 school years is applied to reimbursable 2012-13 base year direct care costs, excluding interest, depreciation, and expenses related to one-time waivers as appropriate. A factor of 3.8 percent which represents the compounding of the approved prospective trend factors of 0 percent for the 2013-14 and 3.8 percent for the 2014-15 school years is applied to reimbursable 2012-13 base year non-direct care costs, excluding interest, depreciation, and expenses related to one-time waivers as appropriate.

B. Non-direct Care Cost Parameter

The non-direct care cost parameter limits the amount of non-direct care costs that will be reimbursed through the tuition rate to 30 percent of the reimbursable costs after adjustments. The reimbursable limit for non-direct care costs can be calculated by multiplying adjusted direct care costs by .4286, which is the ratio of 30/70 for non-direct care/direct care costs.

C. Applied Revenues

Applied revenues will be subtracted from total adjusted costs after the application of the non-direct care cost parameter.

D. Total Cost Screen

1. The hold-harmless component of the total cost screen is not applied in the calculation of 2014-15 tuition rates for school-age programs.
2. The 2014-15 prospective rate cannot exceed the sum of the 2012-13 reconciliation non-direct care per diem rate plus 3.8 percent and the 2012-13 reconciliation direct care per diem rate plus 6.9 percent.
3. For the 2014-15 Reconciliation Rate:
 - a. For school age programs that operate both summer and school year programs:
 - i. In most cases, the 2014-15 reconciliation per diem rate cannot exceed the greater of:
 1. The 2013-14 reconciliation per diem rate plus 3.8 percent.
 2. The 2014-15 prospective per diem rate.

- ii. However, if the 2014-15 enrollment-to-capacity percent decreases by 10 percentage points or more from the prior three year average enrollment-to-capacity percent, then the 2014-15 reconciliation per diem rate cannot exceed the greater of:
 1. The 2013-14 reconciliation per diem rate plus 3.8 percent,¹ plus per diem costs removed by the total cost screen that are added back by using the lesser of the three year average enrollment-to-capacity percent or 90 percent of reported enrollment capacity care days in the total cost screen calculation.
 2. The 2014-15 prospective per diem rate, plus per diem costs removed by the total cost screen that are added back by using the lesser of the three year average enrollment-to-capacity percent or 90 percent of reported enrollment capacity care days in the total cost screen calculation.

Provided that in both (i) and (ii) stated above, 1. will be used where 2. incorporates expenses for capital, interest or depreciation, that were added to 2. via a waiver to the approved tuition methodology; or where a prior year's rate based on audit has been issued subsequent to the issuance of the 2014-15 prospective per diem rate which would otherwise impact the calculation of 2. The Department also reserves the right to apply 1. if the application of 2. would result in inappropriate benefit, as determined by SED, under the specific circumstances applicable at the time the reconciliation rate is being calculated.

Provided further that in (ii) above, if the school age program has not been issued a reconciliation rate/adjustment factor for the previous three (3) years, then 1. will be calculated as the 2013-14 reconciliation rate plus 3.8 percent.

- b. For school age providers that operate summer only programs, the 2014-15 reconciliation per diem rate cannot exceed the 2013-14 reconciliation per diem rate plus 3.8 percent.

¹ The 2014-15 reconciliation per diem to be used in the calculation of the 2015-16 reconciliation and 2016-17 prospective tuition rates will be exclusive of any amount that may be added back to the 2014-15 reconciliation rate due to an enrollment-to-capacity percent decline of 10 percentage points or greater.

E. 2014-15 Reconciliation Process

Refer to Attachment I for a diagram that details the following 2014-15 reconciliation process. Please note that the reform measures described earlier in this memorandum will only result in reimbursement to providers up to the total allowable costs. The reconciliation process, as defined in Section 200.9 (f)(3)(iii) of the Commissioner's Regulations, will be applied in the reconciliation of the 2014-15 school year costs for all approved school age programs as follows:

1. Approved school age special class programs will have reconciliation adjustment factors included in the calculation of 2016-17 prospective tuition rates unless the 2014-15 reconciliation per diem rate differs from the 2014-15 prospective per diem rate by less than 1 percent in which case the 2014-15 prospective rate will become the final rate upon audit and the 2016-17 prospective rate will be issued without a 2014-15 reconciliation adjustment factor.
2. As also described above for the 2014-15 reconciliation adjustment factor/reconciliation rate total cost screen calculation, for school age programs that operate both summer and school year programs, the 2014-15 reconciliation tuition rate per diem cannot exceed the greater of:
 - a. The 2013-14 reconciliation per diem rate plus 3.8 percent; or
 - b. The 2014-15 prospective per diem rate.

For providers that operate summer only programs, the 2014-15 reconciliation tuition rate per diem will be a maximum of the 2013-14 reconciliation per diem rate plus 3.8 percent

3. Funding for the Excessive Teacher Turnover Prevention Program for eligible school age programs has been provided in the State Budget. The 2014-15 grant process will include a Chief Administrator's Certification statement to attest to the use of grant funds and an assurance statement that additional revenues generated from these expenditures will continue in the 2014-15 year to be used to supplement teacher compensation. All funds awarded under this grant for all years must remain in the school's base year costs and must always be used for the specific purposes required by the grant. Upon review of such reports, annual cost reports, or as a result of field audit, if SED determines funds were not spent in compliance with stated grant purpose of supplemental teacher compensation, such expenditures will be recouped via a reconciliation rate or a final audit rate. Schools may also be required to repay current

year funds if it is determined that prior funds were not spent in compliance with the stated grant purpose or the school does not continue to use these funds to supplement teacher compensation.

Reconciliation Glossary

- “Reconciliation tuition rate per care day” is the per care day rate after adjustments to reported costs made on desk review, and after offsetting applied revenues and application of the non-direct care cost parameter and the total cost screen.
- “Regional per diem”² used in the 2014-15 reconciliation process is the weighted average per diem developed on a regional basis from the 2014-15 prospective rate data for full-day segregated special class programs operating at greater than 2.5 hours.
- “Reconciliation adjustment factor” is the adjustment to be added to or subtracted from the prospective tuition rate on a per diem basis.
- “Reported enrollment capacity care days” is the number of students per the approved classroom ratio multiplied by the approved number of classrooms multiplied by the number of session days).
- “Enrollment-to-capacity percent” is total care days used in the tuition rate calculation divided by reported enrollment capacity care days.
- “Three year average enrollment-to-capacity percent” is the sum of the total care days for each of the three years preceding the tuition rate year divided by the sum of the reported enrollment capacity care days for each of the three years preceding the tuition rate year.

Section II. Specific Provisions to the Rate Setting Methodology

A. Special Class Programs

The general rate setting methodology detailed in Section I applies to special class programs with the following additional provisions:

1. Special class programs that operated initially in 2013-14 will be subject to the provisions of Section 200.9 (f)(2)(viii). This section of the Regulations states that if a new program’s student enrollment is not equal to or greater than the minimum number required in Section 200.7

² These regional per diems will be developed using the 2014-15 prospective rate data and will be calculated as soon as sufficient data is available.

(c)(3), then that program shall continue to receive a rate based on the regional weighted average per diem tuition rate previously approved for that program. Upon reconciliation, for programs failing to meet the minimum number of students, the program's per diem rate will be limited to the lower of the per diem based on the school's actual costs or the regional weighted average per diem rate initially established.

2. Special class programs that are seeking initial approval in 2014-15 will receive tuition rates based on the 2014-15 regional weighted average per diem tuition rate. Separate regional weighted average per diem tuition rates shall be used for school age and preschool programs. A list of the 2014-15 regional weighted average per diem tuition rates are listed in Attachment II.
3. Special class programs that operated initially in 2013-14 will have the tuition rate for 2014-15 established at the 2013-14 level with no inflation or growth applied.

B. 1:1 Aide Add-On Rates

The 2014-15 regional weighted average 1:1 aide add-on rates are listed in Attachment V. These rates will be added to the approved tuition rate(s) of the program in which the student is enrolled. The 2014-15 1:1 aide add-on rates are not subject to reconciliation.

C. Interim Rates

For the 2014-15 school year, interim rates may be issued to approved programs if necessary. These rates are in effect until the prospective 2014-15 rates are calculated and approved. The interim rates are intended to provide cash flow until such time as the 2014-15 prospective tuition rates, using the above methodology, are processed.

D. Reimbursement for July/August Session Days

This is to remind all providers that consistent with Section 4408 of Education Law, funding for school age programs operated during July and August of 2013 will be based on thirty days of service.

Programs that operate more than thirty days during July and August will only be funded for thirty days and will be subject to total cost screens if they choose to operate longer sessions.

E. BOCES & Public Summer School Age Only Programs

School Age July/August Home Instruction (9022-9024), Related Service with Specialized Instruction (9025) and Specialized Instruction (9029) are now combined with the previous Related Service Only programs under program code 9015 and renamed School Age - Non Special Class. These rates are administered by the STAC Unit; please visit the STAC web site at <http://www.oms.nysed.gov/stac/> and reference the January 21, 2014 update titled **School Age Summer Related Services Verification** for details on how the 9015 reconciliation rates are calculated.

F. Teacher Certification Funds for 2014-15

Instructions and required forms for applying for these monies are available on the Rate Setting Unit website. Please note that related costs and revenues are to be reported in a separate program cost center, and not in any rate program cost center. These monies are not to be used to increase base year costs for future rate setting.

The July 2014 RCM, which defines reimbursable costs for the 2014-15 school year, will be available at the Rate Setting Unit's website; <http://www.oms.nysed.gov/rsu/>. Inquiries regarding 2014-15 tuition rates should be directed to the RSU staff accountant who processed the school's 2012-13 financial reports. RSU staff telephone numbers and e-mail addresses are listed on Attachment III. The general office information is listed below:

New York State Education Department
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Albany, New York 12234
Phone: (518) 474-3227
Fax: (518) 486-3606

Enclosures:

- Attachment I: 2014-15 Reconciliation Process
- Attachment II: 2014-15 Regional Weighted Average Per Diem Tuition Rates
- Attachment III: Internet and RSU Staff Information
- Attachment IV: 2014-15 1:1 Aide Add-on Rates

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