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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HUMAN SERVICES
LANSING

MAURA D. CORRIGAN
DIRECTOR

March 1, 2013

The Honorable Bruce Caswell, Chair
Senate Appropriations Subcommittee on DHS
Michigan State Senate
Lansing, Michigan 48933

The Honorable Peter MacGregor, Chair
House Appropriations Subcommittee on DHS
Michigan House of Representatives
Lansing, Michigan 48933

Dear Senator Caswell and Representative MacGregor:

This report is provided pursuant to PA 200 of 2012, Section 503 of the Department of Human Services (DHS) Fiscal Year 2013 Appropriations Act. This section requires that DHS submit a report detailing the recommendations of an outside vendor for the establishment of per diem rates for private agencies, using an economic rate-setting methodology that results in a rate that is adequate, reasonable, cost-based, compliant with federal regulations, and supportive of state contractual requirements.

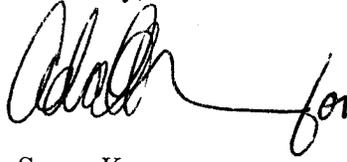
On behalf of DHS, Casey Family Programs has contracted with Chapin Hall at the University of Chicago to provide assessment and recommendations regarding efforts to redesign the manner in which it contracts with its private agency partners for the delivery of child welfare services to children and their families. Within the broader scope of its work with Michigan, Chapin Hall was asked to do the following:

- Assess the adequacy of the per diem rates paid to private providers of out-of-home care.
- Assess the adequacy of the mechanism used to adjust the per diem rate to reflect changes in the cost of doing business.
- Assess the adequacy of the mechanisms used to adjust the per diem rate to reflect changes in the cost of doing business tied to changes in the bundle of services covered by the per diem rate.

The enclosed report provides a concise description of the problem, Chapin Hall's analysis of the underlying issues, and proposed remedies. In addition to the recommendations regarding contracted private child placing agency services, a specific review is also continuing regarding rates for contracted residential placement settings. Analysis and recommendations for those services are expected to be completed by April 30, 2013.

If you have any questions, please contact Steve Yager, Children's Services Administration director, at (517) 241-9859.

Sincerely,

A handwritten signature in black ink, appearing to read 'Susan Kangas', followed by a long horizontal flourish that ends in a small loop.

Susan Kangas
Chief Financial Officer

Attachment: Section 503 Private Child Placing Agency Rate Analysis and Recommendations
cc: Senate and House Appropriations Subcommittees
Senate and House Standing Committees on Families and Human Services
Senate and House Policy Offices
Senate and House Fiscal Agencies

Michigan Department of Human Services
Private Child Placing Agency Rate Analysis and Recommendations
March 1, 2013

Analysis of the issues

Per diem rates or fees-for-service are intended to reflect the cost of producing units of the underlying service. In the case of this review, the rates under consideration are the administrative rates private agencies receive in order to run their foster care programs. In this context the administrative rates cover such expenses as:

- Developing and implementing child specific treatment plans;
- Making referrals to family members for services intended to enhance family functioning in the removal home;
- Maintaining client case files and associated electronic reporting;
- Face to face contacts;
- Family Visitation;
- Sibling Visitation;
- Referrals for health, mental health, and education services;
- Permanency Planning Conferences;
- Legal and court activities;
- Transportation in association with case activities;
- Aftercare care services to children and families during trial reunification;
- Recruitment, licensing, and payment of foster families.

Rates are established in a variety of ways; there is no standard method that is widely used and the federal government does not impose a specific methodology.

With respect to the adequacy of the rate, there are three issues to bear in mind:

1. Is the rate reasonable? That is, does the rate fairly capture the cost of producing the underlying activities?
2. How is the rate adjusted to address changes in the underlying activities?
3. How is the rate adjusted to address changes to the scope of work the rate covers?

Findings – Adequacy of the rate

In our research on the per diem rate for foster care services, we looked to see how the \$37.00 daily rate for administrative services compared to other states. Such a comparison poses some notable challenges: First, the cost of doing business differs between states. For example, to the extent that the cost of living differs among states, labor costs also differ. Second, the blend of services purchased and contractual requirements will differ from state-to-state. These differences make an apples-to-apples comparison challenging. Our general findings are that the Michigan daily rate for foster care services is comparable if not somewhat higher relative to other states. That said, adjustments to the rate have not been made since it was established in 2009.¹

Whereas the foster care administrative rate is fixed across foster care (i.e., foster family care) agencies, there are multiple rates for various levels of residential care. Moreover, those rates vary among the private agencies. Over the last year, the state has focused on reducing the range in rates. In March 2012, the median rate for each service level was calculated, and all providers billing less than the median were raised to the median for each service type. In October 2012, those medians were all adjusted upward by 7.5 percent, and all providers under the adjusted median were raised to the median for the respective service.

The extent to which these rates require further adjustment is tied, in some measure, to the outcomes achieved given the rate paid. Specifically, there is likely to be significant variation in the provider-specific outcomes for children served by placement agencies. A fair assessment of rate adequacy requires analysis as to whether the outcomes are correlated with the rate paid. Work to construct a link between the rate paid and the outcomes achieved is underway.

Findings - Rate Adjustments in the face of rising costs

Per diem rates vary over time for a variety of reasons. One important reason is changes in the cost of producing the underlying activities or service components. For example, as the cost of recruiting labor goes up, the cost of producing services goes up as well.

Currently, Michigan does not have a standardized approach for making changes to the per diem rate that reflects changes in the cost of doing business driven by larger economic forces. We researched methods other jurisdiction use to make regular adjustments, and found that they typically rely on standard economic indices, which we describe briefly below.

The federal government monitors several economic indices that reflect the change in business expenses and consumer spending. The most relevant index for business costs is the Bureau of Labor Statistics (BLS) Employment Cost Index (ECI), which includes wages and all employee benefits. This index is released quarterly by metropolitan area, and national industry categories, and can be used to make regular adjustments to labor costs. Indiana relies on this index in rate adjustments.²

A second indicator is the BLS Consumer Price Index (CPI), which reflects changes in the costs of goods and service to urban consumers and is most relevant for indexing non-personal services. National CPI

¹ See Table attached.

² State of Indiana. "Cost Caps and Cost of Living Adjustment—LCPA's". Provider Manual: Child Placing Agency Rates Bulletin 2011-2. <http://www.in.gov/dcs/files/rulesprovidermanualbulletinlcpa201172.pdf>.

data is released monthly in aggregate and for the categories of food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and all other goods and services. CPI data for the Detroit-Ann Arbor-Flint, MI metropolitan area is released every other month. Wisconsin refers to this index in its rate reviews.³

Finally, Gross Domestic Product (GDP), calculated by the U.S. Department of Commerce, is an indicator of overall economic growth. GDP is available by state, metropolitan areas and within industry. The Commonwealth Foundation has proposed that health care spending growth be tied to GDP so that spending is linked to actual growth. Tying rates to GDP may also contain costs across health care providers.⁴ This approach might also be a reasonable choice for the social services sector. Table 1, below displays recent growth indices for each of the metrics noted above.

³ Wisconsin Department of Children and Families. Chapter DCF 54, Child-Placing Agencies; DCF 57.04 Rate Determination. Accessed 2/27/2013. http://docs.legis.wisconsin.gov/code/admin_code/dcf/54.pdf

⁴ The Commonwealth Foundation (2013). Confronting Costs, Stabilizing U.S. Health Spending While Moving Toward a High Performance Health Care System. http://www.commonwealthfund.org/~media/Files/Publications/Fund%20Report/2013/Jan/1653_Commission_confronting_costs_web_FINAL.pdf

Table 1. Government Indices for Determining Economic Growth

Government Index	Percent Change, December 2010- 2011	Percent Change, December 2011- 2012
Employment Cost Index (ECI) total compensation for Detroit-Warren-Flint, MI all private industry ⁵	4.5	-0.2
ECI total compensation for the health care and social assistance industry, national ⁶	1.6	2.1
Consumer Price Index (CPI) for Detroit-Ann Arbor-Flint, MI, all items for urban consumers ⁷	3.5	1.4
Consumer Price Index (CPI) for Detroit-Ann Arbor-Flint, MI, transportation costs for urban consumers ⁸	5.5	3.2
GDP for Michigan, health care and social assistance industry ⁹	3.22	n/a

⁵ Bureau of Labor Statistics (January 2013). Employment Cost Index, Historical Listing Volume III. Table 13. Employment Cost Index for total compensation,1 and wages and salaries, for private industry workers, by area — Continued (Not seasonally adjusted). Accessed 2/25/2013. <http://www.bls.gov/web/eci/echistrynaics.pdf>

⁶ Bureau of Labor Statistics (January 2013). Employment Cost Index, Historical Listing Volume III. Table 5. Employment Cost Index for total compensation1, for private industry workers, by occupational group and industry — Continued (Not seasonally adjusted)Accessed 2/25/2013. <http://www.bls.gov/web/eci/echistrynaics.pdf>

⁷ Bureau of Labor Statistics (December 2012). CPI Detailed Report. Table 16. Consumer Price Index for All Urban Consumers (CPI-U): Selected areas, by expenditure category and commodity and service group- Continued. Accessed 2/25/2013. <http://www.bls.gov/cpi/cpid1212.pdf>

⁸ Bureau of Labor Statistics (December 2011). CPI Detailed Report. Table 16. Consumer Price Index for All Urban Consumers (CPI-U): Selected areas, by expenditure category and commodity and service group- Continued. Accessed 2/25/2013. <http://www.bls.gov/cpi/cpid1112.pdf>

⁹ U.S. Department of Commerce, Bureau of Economic Analysis. Regional Data, GDP and Personal Income, Percent Change from Previous Period (current dollars). Accessed 2/26/2013. http://www.bea.gov/iTable/index_regional.cfm

Findings - Rate Adjustments to account for work scope changes

As contracts are modified to reflect changes in case practice, requirements under the MSA, federal guidelines, or best practices, the existing per diem system is not set up to address the impact work scope changes have on agency costs. Whereas the delineation of services is reasonably well reflected in the contracts, there is no clear association of cost to services. This results in a fairly weak relationship between the daily per diem rate and the bundle of contractually-required services.

For example, casework requirements require providers to provide services in the home and to family members. Some of those services have been intensified in association with the MSA and with the MiTEAM requirements. Because the added marginal costs of these services are not clearly known, the only current remedy to address the cost of new requirements is either to pay a full per diem rate or not. Recent policy changes that fund trial reunification or to allow for referrals for visitation services are ameliorative, but they do not fully address the underlying problem. Because the cost of the underlying services components is not well articulated, the fiscal impact of reconfiguring service bundles to reflect changing services requirements is not well understood.

Recommendations:

1. In the short term, we recommend the state adopt a strategy for routinely updating the per diem rates to reflect the changing cost of doing business as reflected in the ECI or the GDP. This could offset some economic strain the private network is experiencing as the longer term solutions are developed.
2. In the longer term, we recommend that DHS convene a workgroup that includes both public and private stakeholders to do the following:
 - Adopt an activity-based cost accounting approach. This approach requires a disaggregation of the process and quality elements of delivering care. It would include but not be limited to the range of services and interventions children and families currently receive such as: case management as well as residential care costs, transportation costs, foster home licensing and recruiting, reporting, and general program administration.
 - Once these unit costs are established, select the appropriate economic inflator (labor based, transportation based, consumer goods based, etc.) to be regularly applied to the disaggregated unit costs in order to reduce the lag between changes in the cost of producing the service unit and when those changes are reflected in the per diem rate.
 - Re-aggregate the program elements to meet the various process, quality and capacity standards specified for the range of services for which DHS currently contracts and then weight the per diem rate to reflect the mix of activities for the particular aggregation.

Alternative Methods for Contracting with the Private Network

The second aspect of our work involves a review of the adequacy of the current fee-for-service approach to funding child welfare services. Michigan relies heavily on private agencies to provide out-of-home

care to children who cannot live at home with their parents. The cost of providing care is paid through fee-for-service contracts the state negotiates with the private agencies. The fees-for-service (i.e., the per diem rate) vary with the type of care provide (i.e., group vs. family-based care). As a business model, revenue paid to private agencies depends on the per diem rate and the number of days provided, which is a function how many children the state refers and their average length of stay.

During times when the demand for services is high, the fees-for-service work well because the cost of meeting demand is met through the fee-for-service mechanism. However, when policy and practice preferences shift away from the fee-for-service funded services, the fee-for-service approaches introduce problems. In particular, providers wishing to adapt their service mix to services other than those covered by the per diem rate will have a harder time adapting to the new priorities. For these reasons, the recent shift away from out-of-home placement in Michigan has placed added strain on the private sector.

Findings -- The shift in volume of care

On balance, demand for foster care fell sharply between state fiscal years 2008 and 2011, the last full fiscal years for which data are available. For example, when demand for care is measured as the number of care days provided, Michigan purchased 14 percent fewer days in FY '11 (6.1 million days) than in FY '12.(5.2 million days).

The downward pressure on foster care utilization is the result of a substantial drop in the number of children referred to the foster care system for the first time as well as a decline in the length of stay.

Table 1 shows the number of children/youth entering placement for the first time in the last four complete state fiscal years. As the table indicates, the number of first entries declined statewide by 22 percent since FY2008, when just over 7,300 children entered out-of-home placement for the first time.

Table 1: Number of First Admissions to Out-of-Home Care

Placement Region^^	Initial Entries to Foster Care^				Change between FY 2011 and	
	2007-08	2008-09	2009-2010	2010-11	FY 2008	FY 2010
Total	7,338	6,452	6,549	5,698	-22%	-13%
Big Nine	1,565	1,443	1,701	1,447	-8%	-15%
Contiguous Counties	1,382	1,211	1,338	1,244	-10%	-7%
Genesee	458	387	369	309	-33%	-16%
Kent	470	371	465	384	-18%	-17%
Macomb	557	459	418	314	-44%	-25%
Northern Counties	440	389	370	434	-1%	17%
Oakland	608	348	333	260	-57%	-22%
Upper Peninsula	207	173	214	174	-16%	-19%
Wayne	1,577	1,575	1,284	1,088	-31%	-15%

Missing 74 96 57 44

Placement Region^^

Percent of Fiscal Year Total

Total	100%	100%	100%	100%
Big Nine	21%	22%	26%	25%
Contiguous Counties	19%	19%	20%	22%
Genesee	6%	6%	6%	5%
Kent	6%	6%	7%	7%
Macomb	8%	7%	6%	6%
Northern Counties	6%	6%	6%	8%
Oakland	8%	5%	5%	5%
Upper Peninsula	3%	3%	3%	3%
Wayne	21%	24%	20%	19%
Missing	1%	1%	1%	1%

^^ Counties are removal county, and are mapped to regions consistent with those outlined in the MSA.

The drop in admission demand was paired with a drop in the length of time children spend in care. The second table displays the median duration (in months) for children first entering foster care in the last four years. Statewide, the data show that half of the children entering care for first time in the years shown exited care within about 14 months of their entry in state fiscal year 2010-2011 as compared to 15.1 months in 2007-2008.

Table 2: Median Duration (in months)

Region	State Fiscal Year			
	2007-08	2008-09	2009-2010	2010-11
Statewide	15.1	14.5	14.0	14.1
Big14	14.2	13.7	13.0	-
Cont. Cnty	13.4	14.1	13.3	14.7
Genesee	16.1	12.3	14.2	12.0
Kent	19.3	15.1	16.7	-
Macomb	18.6	15.9	16.8	-
NoCounty	14.1	12.7	15.0	12.2
Oakland	13.8	13.3	12.7	12.2
UP	11.9	11.4	10.4	12.1
County				
Wayne	16.7	15.3	13.9	14.4

^Does not include days in trial home reunification.

Blank medians indicate that not enough children have exited to calculate the median.

Fewer children entering care and shorter lengths of stay lower foster care utilization. Both trends reflect the choices the state is making with respect to how it meets the needs of vulnerable children. Nevertheless and as noted, the policy choices fall hard on private providers of foster care, especially if the reimbursement mechanism make it difficult to diversify the types of services offered.

Recommendations:

To minimize the negative side effects of the current per diem system, we recommend the state shift to a prospective payment system that gives providers greater flexibility over the use of resources and improves accountability relative to the outcomes achieved on behalf of children and families. The work building a prospective payment model is underway. Representatives from the public agency, including program, policy, and fiscal staff as well as representative from the private network are involved in those efforts.

STATE COMPARISONS: Spring 2012

Descriptor	Michigan	Indiana	Ohio	New York (Rest of Sstate)	Oklahoma	Tennessee
State Supervised & State Administered	Yes	Yes	No	No	Yes	Yes
State Supervised & County Administered	No	No	Yes	Yes	No	No
Fixed Rate	Yes	No	No	No	Yes - \$39, bundled with B&M	Yes - 48.50, bundled with B&M
Daily Rate	\$37	-	-	-	average for admin \$24.63	average for admin, \$24.00
Maximum Rate	-	As of 2012, a cost based admin rate is generated for each agency.	Administrative Rate ceiling appears to be calculated for each agency & program.	Yes	-	-
Range or Maximum	-	Range is \$11.67 to \$56.76, avg is \$31.01	Range for ceiling appears to be between \$18-\$20 dollars/ \$27 -35	range \$25 - \$44, the average is around \$37	-	-
Notes	Agencies have master contracts for multiple levels of care. They submit annual cost reports for allowable costs. Dept reviews and establishes the rate.	Agencies submit annual cost reports of operating expenditures. Dept reviews and establishes ceilings and rates.	Agencies submit annual cost reports of operating expenditures. Dept reviews and establishes ceilings and rates.	Variable max rates set by service level and agency. Agency submits cost reports annually.	OK bundles admin with board and maintenance pass-through. Since those rates vary, the remaining admin portion varies as well.	Tn bundles the admin payment with board and maintenance pass-through.
Size of network	between 100-135	about 40	Unknown	about 45 providers	less than 20 providers	about 20 providers
Custodial Population, Census	13,829	8,740	12,000	7,500	6,600	6,400
Proportion in licensed foster homes & kin	70%	90 percent		82 percent	38 percent	71 percent

STATE COMPARISONS: Spring 2012						
Descriptor	Michigan	Indiana	Ohio	New York (Rest of Sstate)	Oklahoma	Tennessee
Proportion in licensed foster homes	48%	about 50 percent				about 60 percent
Served by Private Placement Agencies	42 percent	about 25 percent	100% by July 1, formerly from 85% to 15% (Franklin) other majors already there	about 44 percent	less than 5 percent	about 12 percent
Services:						
Case management services	Yes	Yes	Yes	Yes	Yes	Yes
Case coordination	Yes	Yes	Yes	Yes	Yes	Yes
Caseworker notes	Yes	Yes	Yes	Yes	Yes	Yes
Services coordination/Linkage	Yes	Yes	Yes	Yes	Yes	Yes
Foster Home Recruiting and Licensing	Yes	Yes	Yes	Yes	Yes	Yes
Payments to Foster homes	Yes	Yes	Yes	Yes	Yes	Yes
Reporting to State	Yes	Yes	Yes	Yes	Yes	Yes
Caseload Mandates	Yes, 15 to 1	Newly instituted, 18 to 1	no	Unclear	No	Yes, 20 to 1
Supervisor Mandates	Yes, 5 to 1	Newly instituted, 8 to 1	no	Unclear	No	Yes, 5 to 1