

Performance-Based Contracting Model- Cost Analysis

(FY 2018 Appropriation Act - Public Act 107 of 2017)

March 1, 2018

Sec. 503. (1) *In accordance with the final report of the Michigan child welfare performance-based funding task force issued in response to section 503 of article X of 2013 PA 59, the department shall continue to develop actuarially sound case rates for necessary out-of-home child welfare services that achieve permanency by the department and private child placing agencies in a prospective payment system under a performance-based funding model.*

(2) *The department shall continue to develop a prospective rate payment system for private agencies that includes funding for adoption incentive payments. The full cost prospective rate payment system will identify and cover contractual costs paid through the case rate developed by an independent actuary.*

(3) *By March 1 of the current fiscal year, the department shall provide to the senate and house appropriations committees on the department budget, the senate and house fiscal agencies and policy offices, and the state budget office a report on the full cost analysis of the performance-based funding model. The report shall include background information on the project and give details about the contractual costs covered through the case rate.*

(4) *In accordance with the final report of the Michigan child welfare performance-based funding task force issued in response to section 503 of article X of 2013 PA 59, the department shall continue an independent, third-party evaluation of the performance-based funding model. The evaluator shall be selected through a competitive process by a rating committee that includes, but is not limited to, representatives from the department and private child placing agencies.*

(5) *The department shall only implement the performance-based funding model into additional counties where the department, private child welfare agencies, the county, and the court operating within that county have signed a memorandum of understanding that incorporates the intentions of the concerned parties in order to implement the performance-based funding model.*

(6) *The department, in conjunction with members from both the house of representatives and senate, private child placing agencies, the courts, and counties shall implement the recommendations that are described in the workgroup report that was provided in section 503 of article X of 2013 PA 59 to establish a performance-based funding for public and private child welfare services providers. The department shall provide a quarterly report on the status of the performance-based contracting model to the senate and house appropriations subcommittees on the department budget, the senate and house*

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standing committees on families and human services, and the senate and house fiscal agencies and policy offices.

(7) From the funds appropriated in part 1 for the performance-based funding model pilot, the department shall continue to work with the West Michigan Partnership for Children Consortium on the implementation of the performance-based funding model pilot. The consortium shall accept and comprehensively assess referred youth, assign cases to members of its continuum or leverage services from other entities, and make appropriate case management decisions during the duration of a case. The consortium shall operate an integrated continuum of care structure, with services provided by both private and public agencies, based on individual case needs. The consortium shall demonstrate significant organizational capacity and competencies, including experience with managing risk-based contracts, financial strength, experienced staff and leadership, and appropriate governance structure.



Michigan Department of
Health & Human Services

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In the fall of 2013, the legislature set forth requirements for the Michigan Department of Health and Human Services (MDHHS) to convene a Performance-Based Funding Task Force to assess the feasibility of establishing performance based funding for all public and private child placing agencies. The Task Force included representatives from the department, private child placing agencies, private child caring institutions, Michigan courts and county administrators. The Task Force issued a final report and findings in early 2014 which asserted that a performance-based funding model was feasible and further set forth a pathway that could be followed for successful implementation in a phased, integrated approach.

As a result of the Performance-Based Task Force Report, the Child Welfare Partnership Council (CWPC), MDHHS, Kent County, the West Michigan Partnership for Children (WMPC), and the private provider community worked in partnership to design, develop, and implement a performance-based funding model in Kent County.

The Kent County pilot launched into full implementation on October 1, 2017. The state fiscal year (FY) 2018 contract between MDHHS and WMPC has an estimated year one value of \$36,362,240.

MDHHS procured rate development and actuarial services from Public Consulting Group (PCG) and its subcontractor Lewis & Ellis (L&E) to support the pilot's performance-based funding model and case rate payment level development. The rate development team approached the rate development process with the following goals for the case rate:

- The case rate should support the full cost of care of Kent County's current level of performance. For example, if the current average length of stay in Kent County is 2.3 years, then the case rate should support that as a baseline and reward performance that exceeds that goal.
- The case rate should provide flexibility for the consortium to serve children and families creatively and effectively.
- The case rate should financially incentivize certain performance goals, specifically:
 - More timely permanency.
 - Reduced reliance on residential (institutional or group home) settings for out of home care.

The case rate was developed through calculating the full cost of care, aligning the rate with performance goals, and considering the consortium costs. To develop the average cost per case, the project team of PCG and L&E needed to identify the number of cases in Kent County over a defined period of time (seven fiscal years), the average length of a case, and the historical costs associated with the cases and the average duration. The following data sources were utilized for that analysis:

- Child Welfare Information system (SWSS and SACWIS) data.
- MDHHS payments made outside of SWSS/SACWIS.
- Kent County Child Care Fund expenditures.
- Provider cost reports.

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Adjustments were made to historical costs to account for:

- Newly implemented programs.
- Inflation in the cost of providing services.
- Anticipated rate increases.

The rate setting team also updated the case rate prior to its implementation in FY 18 to account for an increase in staffing costs related to a revised caseload ratio of 13:1 for private foster care agency caseworkers, the United States Department of Labor's overtime rule (which has not yet been implemented), and to factor in certain statewide service rate adjustments taking place in FY18.

The average cost per case was calculated at \$59,175 and the average time in care was calculated at 2.3 years.

Considering actuarial testing and performance-based incentive analysis, PCG and L&E established the following case rate payment schedule:

- Semi-annual payment schedule 1 (Day 1): \$22,800
- Semi-annual payment schedule 2 (Day 181): \$22,800
- Semi-annual payment schedule 3 (Day 361): \$11,400
- Semi-annual payment schedule 4 (Day 541): \$11,400
- Semi-annual payment schedule 5 (Day 721 and every 180 days thereafter until the child leaves out-of-home-care): \$5,900

WMPC received the initial payments for all youth in care on October 1, 2017 and has also been receiving initial case rate payments for youth entering care since October 1, 2017. For children who have not yet been able to safely return home within six months, the WMPC will receive a second payment to support costs of continued placement and corresponding services.

The WMPC's financial summary through January 31, 2018, is provided below:

Case Service Revenues:	\$15,332,000
Administrative Revenues:	\$ 759,340
Interest Income	\$ 42,447
<u>Total Income</u>	<u>\$16,133,787</u>

Salaries, Taxes, Benefits	\$ 373,373
Foster Care Expenditures	\$10,152,333
<u>Additional Admin Expenses</u>	<u>\$ 105,923</u>
<u>Total Expenses</u>	<u>\$10,631,629</u>

Change In Fund Balance \$5,502,158

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WMPC is required to submit quarterly cost reports to support federal claiming and programmatic decision making. The cost reports will also be used to help monitor the appropriateness of the case rate.

Per the contract with WMPC, MDHHS or its designee will monitor the case rate on a quarterly basis for the first two years of the Agreement and semi-annually after that. Regularly scheduled case rate reviews will include:

- a. Monitoring the number of children in care compared to historical trends.
- b. Developing quarterly spending estimates for Kent County based on historical trends.
- c. Monitoring actual spending vs. acceptable margins for spending variation based on WMPC cost reports.
- d. Reviewing total spending per year per case.

WMPC will also notify MDHHS if a case exceeds \$150,000 in expenditures to confirm whether the case is an outlier or whether it could be part of a trend that may require a recommended case rate revision. MDHHS will review a percentage of the highest cost cases for type, quantity, and cost of services provided.

If the actual average cost per case differs by more than 3 percent from the historical calculated cost per case, MDHHS and WMPC will work together to identify the cause of the increase and determine whether a revision to the case rate is required.

MDHHS, PCG, and Lewis & Ellis developed a tool to monitor the case rate and MDHHS is in the process of pulling data from MiSACWIS to populate the tool so that the rate can be reviewed.