

# Performance-Based Contracting Model-Cost Analysis

(FY2017 Appropriation Act - Public Act 268 of 2016)

March 1, 2017

**Sec. 503 (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.*



Michigan Department of  
Health & Human Services

RICK SNYDER, GOVERNOR  
NICK LYON, DIRECTOR

## Performance-Based Contracting Model-Cost Analysis

In FY 2014, the Michigan 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 MDHHS, private child placing agencies, private child caring institutions, courts, and county administrators. The task force issued a findings report in 2014, which asserted that a performance-based funding model was feasible and further set forth a pathway that could be followed for successful implementation with a phased, integrated approach.

The Child Welfare Partnership Council (CWPC), MDHHS, and the West Michigan Partnership for Children (WMPC), have collaborated to design, develop, and implement a performance-based funding model in Kent County. MDHHS procured project management and actuarial services from Public Consulting Group and evaluation services from Westat, Inc. to support the pilot's phased implementation. MDHHS and the WMPC began phase I of implementation on July 1, 2016. The attached FY 2017 Status of Performance Based Contracting Model First Quarter Report, Section 503(6) of Public Act 268 of 2016, provides additional information on implementation of phase I.

MDHHS has progressed in the actuarial rate setting process. MDHHS contracted with Public Consulting Group (PCG) and Lewis & Ellis (L&E) to determine the full cost of care for children and youth in out-of-home-care in Kent County and to develop case rate options that align with the goals of the performance-based funding initiative. The calculated rates include annual, semi-annual, quarterly and monthly case rate options. The MDHHS and WMPC are recommending moving forward with the semi-annual case rate payment modality.

The current draft rate is based on an analysis of the prospective cost per case in Kent County. Historical service and cost data was used and adjusted forward to the implementation period. The analysis was based on a combination of data from FY 2010-2014 from the following sources:

- SWSS (Service Worker Support System).
- MiSACWIS (Michigan's Statewide Automated Child Welfare Information System).
- Payment vouchers.
- Kent County Child Care Fund expenses.
- Private provider cost reports.

The average cost per case was then calculated by dividing the total Kent County child-related expenses (for all services) of reported cases between FY2010 and FY2014. The project team worked with MDHHS and each provider member of the WMPC to identify the number of cases in Kent County over the five fiscal years.

## Performance-Based Contracting Model-Cost Analysis

The historical data was adjusted for inflation of the cost of providing services and for newly implemented programs that were fully captured in the historical data. This data was used to calculate the average length of a case and all historical costs associated with these cases resulting in an estimated average cost per case in Kent County.

The PCG and L&E team adhered to generally accepted actuary principles in both developing and testing the sufficiency of the draft rates. The following tests were completed to help determine the adequacy of the rate calculations:

- **Stochastic Model Simulation:** Estimates potential outcomes using probability distribution. A 100,000 case trial amount was used.
- **Seriatim Testing:** Reviews the case rate in real time to assess cash flow risks by comparing actual payments to hypothetical case rate payments.
- **Incentive Study:** Tests the outcomes of incentive payment applications. This test involves rerunning the Seriatim Testing with reduced placements (by two months).

The seriatim testing reviewed the case rate payments in real time to assess the cash flow risks associated with the case rate options. After initial seriatim testing, it was determined that the case rate did not fund the full cost of care. This determination was attributed to:

- 1) A significant number of cases that are expensive initially and then cost less near the end of the case.
- 2) A significant number of cases that are higher risk and higher cost that were not appropriately compensated.

Based on these observations, the case rate structure was altered to account for the duration of a case, increasing initial payments and to account for cases that were already active at the case rate implementation. The incentive study also led to further increasing the case rates in order to better align the rate with performance goals of reduced lengths of stay in care and/or limiting the need for and use of high cost placements.

The rate setting team is currently gathering FY 2015 and FY 2016 cost data in order to update the case rate prior to implementation in FY 2018. There will be additional testing with the new data to continue to monitor and verify that the case rates will adequately fund the cases and provide flexibility for providers as they work toward better outcomes.