

Performance-Based Contracting Model- Cost Analysis

(FY2019 Appropriation Act - Public Act 207 of 2018)

March 1, 2019

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 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) *From the funds appropriated in part 1 for adoption support services, the department shall allocate \$50,000.00 by December 31 of the current fiscal year to conduct an actuarial study on rates paid to private child placing agencies for adoption incentive payments. The actuarial study shall include a full cost prospective rate payment system and shall identify and analyze contractual costs paid through the case rate developed by an independent actuary.*

(3) *By October 1 of the current fiscal year, from the funds appropriated in part 1 for adoption support services, the department shall allocate \$950,000.00 of state general fund/general purpose and any eligible federal matching funds to increase rates paid to adoption service providers by up to 10% for adoption placement, adoption finalization, and adoption permanency in all rate categories.*

(4) 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.

(5) *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.*

(6) *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.*

(7) *The department, in conjunction with members from both the house of representatives and senate, private child placing agencies, the courts, and counties shall continue to 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 quarterly reports on the status of the performance-based contracting model to the senate and house appropriations subcommittees on the department budget, the senate and house standing committees on families and human services, and the senate and house fiscal agencies and policy offices.

(8) 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.



Performance-Based Contracting Model- Cost Analysis

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.

MDHHS procured rate development and actuarial services from Public Consulting Group (PCG) and its subcontract 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 the goal of reducing time in care.
- 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 MiSACWIS) data.
- MDHHS payments made outside of SWSS/MiSACWIS,
- Kent County Child Care Fund expenditures.
- Provider cost reports.

Performance-Based Contracting Model- Cost Analysis

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 just prior to its implementation in FY18 to account for an increase in staffing costs related to a revised caseload ratio of 13:1 for private foster care agency caseworkers, implementation of the Department of Labor's overtime rule (which was anticipated but never implemented by Federal Rule), 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 has been receiving semi-annual case rate payments for youth in care since October 1, 2017. The WMPC receives an additional \$820 flat allocation applied to each case rate payment to support the administrative cost of the consortium.

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.

At the time of this report, monitoring has been completed for FY18. Data for the 1st quarter of FY19 is not yet finalized.

Performance-Based Contracting Model- Cost Analysis

The WMPC's financial summary, on an accrual basis, through September 30, 2018, is provided below¹:

Service Cost Revenue:	\$35,131,620
Consortium Cost Revenue:	\$ 1,767,120
Case Rate Expenditures:	(\$35,256,387)
<u>Consortium Expenditures:</u>	<u>(\$ 1,612,108)</u>
Fund Balance:	\$30,246

Approximately 50% of the foster care expenditures support the cost for case management and adoption services and the remaining 50% support costs for placement and contracted services (i.e. payments to foster parents, residentials and services to parents.)

The fund balance at the end of year one is \$30,246. The projected fund balance estimated during the development of the case rate was \$1.1M. While it wouldn't be expected for these two numbers to correlate exactly, the actual fund balance at the end of year one is significantly lower than expected.

In performing the case rate monitoring, PCG and L&E have identified two major causes for the difference in the actual-to-expected fund balance at the end of year one:

1. WMPC implemented additional expenditures beyond those built into the case rate.
2. Fewer cases in the system than expected and modeled in the case rate.

¹ From WMPC September 20, 2018 fiscal year statement.