State Notes

TOPICS OF LEGISLATIVE INTEREST

Fall 2017

Performance-Based Funding for Child Welfare Services
John Maxwell, Fiscal Analyst

Introduction

On October 1, 2017, a performance-based funding pilot model for child welfare services was implemented in Kent County. The Michigan Legislature had expressed an interest in implementing such a model for nearly a decade. As the pilot begins placing children into care, it is useful to review some of the development history. This article will cover the mechanics of a performance-based funding model for child welfare, the appropriation background and costs in developing the pilot, and an explanation of the case rate payment model.

Background of Child Welfare & Performance-Based Funding

Before the 1960s, the State was both the supervisor and the administrator of child welfare services. Case oversight, placement, and direct services were mostly provided by the State. As the demand for community-based treatment grew, nonprofit private entities were formed to deliver locally sourced human services through contractual arrangements with the State[1]. The contracts between the publically administrated child welfare system (i.e., the State) and nonprofit private agencies operated on a fee-for-service[2] basis. As services were delivered through these providers, there was a realization that focusing solely on per diem payments and reimbursement for treatment could lead to missed opportunities to facilitate positive outcomes in child welfare services.

Generally, a performance-based funding system seeks to align incentives between the payor (in the case of child welfare, the State) and the payee (the child welfare service provider). The main concern for both the State and service providers is ensuring that children receive the proper treatment and service. Both groups also have fiscal concerns. Under a fee-for-service model, the State's fiscal focus is to minimize costs by limiting or denying treatment when resources are limited, while a provider's fiscal focus is to increase treatment length or amount to ensure financial sustainability. These two concerns can create negative outcomes when needed treatment is not reimbursed or unnecessary placements are made to generate cash flow for a provider.

One method to correct the misallocation of resources under a fee-for-service model is a performance-based funding model that pays for services through outcomes-based contracting. The Office of Federal Procurement Policy defines performance-based contracting as "an approach where the statement of work is based on objective, measurable performance standard outputs". Another definition is: "Performance-based contracting is one that focuses on the outputs, quality, and outcomes of the service provision and may tie at least a portion of a contractor's payment as well as any contract extension or renewal to their achievement."[3]

---

[1] Performance-Based Contracting for Human Services: Does It Work? Martin 2000
[2] "Fee-for-service" means a payment model in which payments are tied to services and each service is reimbursed separately and retrospectively.
[3] *Id.*

Creating financial incentives through contracting can target outcomes on safety, permanency, and the well-being of the child and can attempt to rectify the financial concerns of the State and service providers.

Funding for Kent County's Performance-Based Funding Model

Michigan's movement toward adopting performance-based funding in child welfare began with Public Act 129 of 2009 (the fiscal year 2009-10 Department of Human Services budget). Section 515 of this Act required the Michigan Department of Human Services (which subsequently became and is referred to below as the Michigan Department of Health and Human Services (DHHS)) to begin implementing and report on implementation of performance-based attributes in foster care services. The goal stated in this boilerplate section was to facilitate compliance with the U.S. Department of Health and Human Services - Child & Family Services Reviews (CFSR) and the court-ordered remedies under *Dwayne B. v. Snyder*[4].

In subsequent fiscal years, the Legislature continued to move toward performance-based funding models through boilerplate requirements for research reports. In Section 503 of Public Act 59 of 2013, the Legislature required the DHHS to create a workgroup composed of child welfare stakeholders to execute a feasibility study with the goal of establishing a performance-based funding model for public and private child welfare service providers in Michigan. The workgroup of 17 task force members with project management from the Alliance for Children and Families, Chapin Hall at the University of Chicago, and Skidmore and Company. Over nearly a year, the workgroup met, discussed, and researched many options to meet the requirement contained in Section 503[5]. On February 24, 2014, the DHHS released a final report from the Child Welfare Performance Based Funding Task Force with recommendations to create the necessary conditions for a performance-based funding model to be successful. The most pertinent recommendation was for a continuum of care/network model for referral of non-profit, privately managed cases. The organizing entity in this type of model would hold the contract with the State and the service providers would then receive case referrals from the continuum/network.

Additionally, the report suggested that the continuum/network would "…assume associated risk for care management, case outcomes, and legal accountability…services would be funded through a fully inclusive actuarially-sound rate…to cover the full costs of services…"[6]. The funding/rate setting portion of the report recommended that the case rate be set through an "experienced actuarial service…" and that the rates be a "full cost prospective rate payment system".

[4] The settlement agreement entered in the case of *Dwayne B. v. Snyder*, Docket no. 2:06-cv-13548 in the United States District Court for the Eastern District of Michigan.
http://www.childrensrights.org/class_action/michigan/
[5] CWPBF Final Report February 24, 2014
[6] *Id.*

As stated previously, the Legislature's initial mandates were for research reports; following the issuance of the workgroup's report in 2014, the Legislature began to appropriate funds for implementation. Table 1 details total appropriations from fiscal year (FY) 2014-15 to FY 2017-18.

Table 1

Summary of Estimated Cumulative State Appropriations for Child Welfare Performance-Based Funding

Public Act	Gross Appropriation	GF/GP Appropriation
FY 2014-15:		
Public Act 252 of 2014	$1,272,100	$900,000
FY 2014-15 Total Appropriation	**$1, 272,100**	**$900,000**
FY 2015-16:		
Public Act 84 of 2015	$1,772,100	$1,399,700
FY 2015-16 Total Appropriations	**$1,772,100**	**$1,399,700**
FY 2016-17:		
Public Act 268 of 2016	$1,778,900	$1,405,100
FY 2016-17 Total Appropriations	**$1,778,900**	**$1,405,100**
FY 2017-18:		
Public Act 107 of 2017	$1,444,800	$1,071,000
FY 2017-18 Total Appropriations	**$1,444,800**	**$1,071,000**
Cumulative State Appropriations	**$6,267,900**	**$4,775,800**

In the fall of 2014, as the program commenced, the DHHS worked to create the administrative structure to supervise the transition for direct care processes of out-of-home child welfare services in Kent County to a continuum/network. Shortly thereafter, in early 2015, providers in Kent County heeded the continuum/network model recommendation contained in the workgroup report and formed the West Michigan Partnership for Children (WMPC). The organizations in the WMPC are: Bethany Christian Services, Catholic Charities of West Michigan, D.A. Blodgett - St. John's, Lutheran Social Services of Michigan, and Wellspring Lutheran Services. The WMPC is a labeled as a "consortium model", which is an interchangeable reference to the continuum/network model previously discussed. As the WMPC is and will be the child-placing agency that makes placements with the member organizations, the WMPC board is made up of representatives of these member service providers, allowing for oversight, collaboration, and specialization.

In addition to the pilot program created in Kent County, the DHHS began a plan to develop a foundation for performance-based funding as a statewide aspect of child welfare. The DHHS contracted with Public Consulting Group (PCG) to provide project management services for all development of performance-based funding.

Expenditures through September 15, 2017, are shown in Table 2, which details the actual expenditures made from fiscal year 2014-15 through fiscal year 2016-17. In FY 2015-16, a $500,000 appropriation was made for start-up costs incurred by the WMPC ($300,000 for staffing and $200,000 for information technology investments). After October 1, 2017, the consortium costs will be covered through case rate payments as shown in Table 3. Expenditures of approximately $990,000 have been made to date to the DHHS and PCG (as well as its actuary subcontractor, Lewis & Ellis) to develop an actuarially sound case rate. The case rate was one of the signature recommendations in the 2014 report to help move away from the distorted incentives that can occur under a fee-for-service model and is the mechanism to achieve better outcomes. The other vendor receiving payments is Westat, Inc., which was selected as the evaluator of the Kent County pilot program (and whose scope of work will be discussed in the next section).

Table 2

Performance-Based Child Welfare Expenditures	
Vendor/Department	**Enacted**
Public Act 252 of 2014	
Public Consulting Group	$379,580
Department of Health and Human Services	90,645
Total Public Act 252 of 2014	**$470,225**
Public Act 84 of 2015	
Public Consulting Group	$577,547
Department of Health and Human Services	536,203
West Michigan Partnership for Children	500,000
Total Public Act 84 of 2015	**$1,613,750**
Public Act 268 of 2016	
Public Consulting Group	$409,444
Department of Health and Human Services	$273,373
Westat, Inc.	$392,309
Total Public Act 268 of 2016	**$1,075,126**
Total Performance-Based Funding Expenditures	**$3,159,101**

Table 3

Kent County Performance-Based Funding Case Rate			
Semi-Annual Payment Amounts	**Payments 1 & 2**	**Payments 3 & 4**	**Payments 5+**
West Michigan Partnership for Children (Without embedded consortium costs)	$22,800	$11,400	$5,900
West Michigan Partnership for Children (With consortium costs)	$23,620	$12,220	$6,720
Consortium Cost per payment	$820	$820	$820
Note: Payments will continue for as long as the child is in care.			

WMPC Performance-Based Case Rate

Perhaps the most interesting development from the WMPC pilot is the establishment of the full cost of care case rate. Under a fee-for-service payment arrangement, there are misaligned incentives between the payor (the State) and the payee (nonprofit private provider) because the payee could promote the delivery of services or length of treatment beyond what is sufficient for the child[7]. Per diem provider payments are the standard fee-for-service payment arrangement in child welfare to deliver services that are deemed reimbursable. In some cases, this leads to the exclusion of certain treatment methods that are deemed nonreimbursable even with the potential for greater treatment efficacy.

Furthermore, under a per diem payment regime, a child could be placed in care for a longer duration than is necessary, thus creating an inefficient distribution of State resources and imposing an implicit cost on other children whose needs are not met. Under a case rate contract arrangement, the service provider receives a flat, fixed payment amount regardless of the volume or magnitude of the services delivered.

With a full cost (or risk capitated) case rate, the WMPC will be paid a prospective, fixed amount for each child placed into the care of the consortium. The case rate will be the sole reimbursement provided to cover all services delivered to a child placed with the WMPC. Due to the prospective case rate for the WMPC, the financial risks are generally shifted from the State to the WMPC. The consortium is limited to the case rate revenue and must allocate services in a manner that ensures financial adequacy to cover the risks associated with the duration and intensity of child welfare services.

As the case rate is a prospective payment, it is made at the outset of the case assignment to the WMPC. It is the intent of the DHHS that the case rate will, "cover the full costs of care for children from placement through permanency, including: foster care board and care rates, all costs associated with residential and therapeutic foster care, Placement Agency Foster Care daily rate, including…independent living…trial reunification, including up to 6 months of

[7] U.S. Department of Health and Human Services, Assistant Secretary for Planning and Evaluation, *State Innovations in Child Welfare Financing*, April 2002.

aftercare, …costs specific to services that support children and families involved with foster care…adoption incentive payments." [8]

The case rate will not cover many in-home services such as Strong Families Safe Children, Child Abuse and Neglect (Prevention), Families First, Youth in Transition, Young Adult Voluntary Foster Care, Unaccompanied Refugee Minors, and Adoptive and Foster Parent Recruitment.

PCG and Lewis & Ellis used data from fiscal year 2009-10 through fiscal year 2016-17 to test the adequacy of the payments. The project team tested various payment modalities including annual, semi-annual, quarterly, and monthly. The decision was made to use the semi-annual payment method with payments made once every six months when a child remains in care. The payment schedule is as follows: $22,800 (payments 1 & 2), $11,400 (payments 3 & 4), and $5,900 (for payment 5 and any further payments). These payments amounts do not include the WMPC costs of $820 per case that will be added to each payment to cover the expenses of the consortium. Table 3 shows the amount of the case rate paid to the WMPC from the State.

With this new payment arrangement, if the WMPC is successful in getting children to permanency on a more timely basis, then any marginal financial savings are retained by the consortium. In contrast with a system that rewards length of stay, the case rate rewards the providers when successful outcomes are attained more quickly. The case rate is essentially a prepayment for services and could align incentives for positive outcomes for children more effectively than a retrospective fee-for-service payment arrangement.

As the performance-based funding child welfare model commences in Kent County, it is important to note that no other counties have opted to undertake this payment arrangement. The information gained from the WMPC will be analyzed by Westat, Inc., which was selected in early 2016 as the contractor to evaluate Kent County (the pilot county) with two similar control counties, Ingham County and Oakland County. The evaluation will continue for five years as the performance-based funding model proceeds. The data on outcomes and financial structure of the nonprofit private providers will inform the DHHS and any additional counties that may be interested in implementing a performance-based funding child welfare payment regime.

[8] Kent County Case Rate, Michigan Department of Health and Human Services & Public Consulting Group, July 14, 2017.