

Performance-Based Contracting Model-Cost Analysis

(FY 2020 Appropriation Bill - Public Act 67 of 2019)

March 1, 2020

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 review, update, or 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) *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.*

(3) 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.

(4) 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.

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

(6) 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

Performance-Based Contracting Model-Cost Analysis

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

Section 503(2) PA 67 of 2019

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. In 2014, the task force issued a final report with findings indicating that a performance-based funding model was feasible. The report set forth steps that could be taken for successful implementation using 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 collaborated to design, develop, and implement a performance-based funding model in Kent County. The Kent County pilot was implemented on October 1, 2017.

MDHHS procured rate development and actuarial services from Public Consulting Group (PCG) and its subcontractor, Lewis & Ellis (L&E). The rate development team established the following goals for case rate development:

- The case rate should be sufficient to support the full cost of care needed to maintain, at a minimum, at 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 be sufficient enough to maintain that level of performance.
- The case rate should provide flexibility for the consortium to implement innovative and effective strategies for serving children and families.
- The case rate should financially incentivize certain outcomes, specifically:
 - More timely permanency.
 - Fewer residential placements.

The case rate was developed by calculating the full cost of care, aligning the rate with performance goals, and considering administrative costs to operate the consortium. To develop the average cost per case, PCG and L&E identified the number of children in foster care in Kent County over the past seven fiscal years, the average length of a foster care case, and the historical costs associated with the cases and the average duration.

The analysis used the following data sources:

- SWSS and MiSACWIS data.
- MDHHS payments made outside of SWSS/MiSACWIS.
- Kent County Child Care Fund expenditures.
- Private provider cost reports.

Adjustments were made to historical costs to account for:

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

Performance-Based Contracting Model-Cost Analysis

Section 503(2) PA 67 of 2019

- Anticipated rate increases.

The rate setting team updated the case rate 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, and to factor in certain statewide service rate adjustments (e.g. Child Placing Agency and Child Caring Institution per diem rates) taking place in FY18.

The average cost per case was calculated at \$59,175 with the average time in care 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 received semi-annual case rate payments for youth in care since October 1, 2017.

Effective April 1, 2019, the case rate payment schedule was adjusted to account for a shelter foster care per diem rate increase, and the addition of unlicensed relative maintenance costs being paid under the case rate. Effective April 1, 2019, the following case rate payment schedule was implemented:

- Semi-annual payment schedule 1 (Day 1): \$23,690
- Semi-annual payment schedule 2 (Day 181): \$23,690
- Semi-annual payment schedule 3 (Day 361): \$11,850
- Semi-annual payment schedule 4 (Day 541): \$11,850
- Semi-annual payment schedule 5 (Day 721 and every 180 days thereafter until the child leaves out-of-home care): \$5,920

WMPC is required to submit quarterly cost reports to support federal claiming and programmatic decision making. The cost reports are used to monitor the appropriateness of the case rate. At the time of this report, monitoring has been completed for fiscal year 2019. The WMPC's financial summary, on an accrual basis, through September 30, 2019, is provided below¹:

Performance-Based Contracting Model-Cost Analysis

Section 503(2) PA 67 of 2019

Fiscal Year (FY)	FY2018	FY2019	Total
Case Rate Revenue	\$35,113,600	\$33,322,596	\$68,436,196
Consortium Revenue	\$1,693,320	\$1,550,349	\$3,243,669
Other Revenue	\$91,820	\$131,154	\$222,974
Foster Care Expenses	\$35,256,632	\$37,804,502	\$73,061,134
Consortium Expenses	\$1,593,574	\$1,797,096	\$3,390,670
Fund Balance	\$48,534	(\$4,597,499)	(\$4,548,965)

The projected fund balance estimated during the development of the case rate was 2% of revenue, or approximately \$1.4M. As shown in the table above, the actual fund balance is significantly lower than expected.

PCG and L&E have recommended retrospective and prospective case rate adjustments to address the revenue shortfall (as documented in addendum #2 to the initial case rate methodology report). The adjustments were recommended after it was discovered that 1) some expenses were inadvertently excluded from the original case rate development and 2) FY17 costs, which were not included in the initial case rate development, were higher than historical expenditures.

In performing the case rate monitoring, WMPC disclosed to PCG and L&E that it made business decisions that resulted in increased costs beyond what was accounted for in the initial case rate. To keep costs in line with revenue, WMPC reduced the administrative rate paid to private case management agencies and is working to improve its utilization management model by reducing residential care expenditures.

¹ Based on Financial Statements provided by the WMPC.