OFFICE OF FINANCIAL MANAGEMENT

STATE OF WASHINGTON

REPORT TO THE GOVERNOR AND LEGISLATURE

CHILD WELFARE REFORM SAVINGS REINVESTMENT

AS REQUIRED BY CHAPTER 520, SECTION 11, LAWS OF 2009

(SECOND SUBSTITUTE HOUSE BILL 2106)

OFFICE OF FINANCIAL MANAGEMENT
DEPARTMENT OF SOCIAL AND HEALTH SERVICES
CHILDREN'S ADMINISTRATION
CASELOAD FORECAST COUNCIL

FEBRUARY 2011

Table of Contents

BACKGROUND

Chapter 520, Section 11, Laws of 2009 (Second Substitute House Bill 2106) directs the Office of Financial Management (OFM), the Department of Social and Health Services (DSHS) and the Caseload Forecast Council to "develop a proposal for submission to the legislature and the governor for the reinvestment of savings, including savings in reduced foster care caseloads, into evidence-based prevention and intervention programs designed to prevent the need for or reduce the duration of foster care placements."

Amended in 2010, the legislation was directed at improving child welfare outcomes through the phased implementation of strategic and proven reforms. The new law directs DSHS, no later than July 1, 2011, to consolidate and convert existing contracts for child welfare services to performance-based contracts and to link a contractor's performance to the level and timing of reimbursement for services (RCW 74.13.360). The law also changed the definition of child welfare services to include voluntary and in-home services (RCW 74.13.020 (4)).

To meet the July 1, 2011 deadline, the Children's Administration will release a request for proposal that consolidates some 1,600 contracts for child welfare services, including voluntary in-home services, in a few performance-based contracts. In partnership with successful bidders (lead agencies), the Children's Administration will monitor each contract monthly to ensure that expenditures do not exceed total appropriation authority for performance-based contracts.

Current Forecast Model

State appropriations for foster care and adoption support are increased or reduced depending on the forecasted caseload approved by the Caseload Forecast Council. The state appropriation for foster care and adoption support is calculated based on the forecasted caseload multiplied by a forecasted per capita cost. The forecasted per capita cost is based on the actual monthly expenditures for a particular program category divided by the applicable monthly caseload. For example:

Average Monthly Forecasted Caseload	**x**	**Average Monthly Per Capita Cost**	**=**	**Average Monthly Expenditures**	**x**	**12 months**	**=**	**Total Forecasted Appropriation**

When DSHS is successful in reducing foster care caseloads through prevention and intervention programs or other policies, the savings are not available for reinvestment to achieve long-term reduced caseloads and additional statewide reforms. In addition, if DSHS and its contractors are more efficient at providing foster care services, savings from the resulting reduction in per capita costs is not available for reinvestment. Conversely, if the caseload or per capita increases, funding is provided for additional costs.

Foster Care and Adoption Support are the only budget categories in the Children's Administration whose appropriated levels change as a result of the forecasted caseload and per capita cost changes. The next section provides additional information about the Children's Administration budget, including information on services that will be included in performance-based contracts.

Children's Administration Budget for Fiscal Year 2011

The Children's Administration's total state Fiscal Year 2011 appropriation is $567 million. Of the total budget, $323 million is allocated to services and $244 million to staff and infrastructure. The following table details the budget by category; the second column identifies whether the budget category is part of the current expenditure forecast.

Service Budget Unit	Current Forecast	FTE Authority	GF-State	GF-Federal	Other	Total 2011 Funding
C12 - Behavioral Rehabilitation Services	No	0.0	$ 34,602,000	$26,430,000	0	$61,032,000
C14 - Family Support Services	No	0.0	31,049,000	7,857,000	0	38,906,000
C15 - Transitional Services for Youth	No	0.0	1,517,000	115,000	$6,053,000	7,685,000
C16 - Adoption Support Program	Yes	0.0	49,502,000	51,218,000	0	100,720,000
C18 - Victims Assistance Program	No	0.0	7,229,000	0	577,000	7,806,000
C19 - Foster Care Program	Yes	0.0	66,229,000	39,800,000	741,000	106,770,000
Total Service Budget		**0.0**	**$190,128,000**	**$125,420,000**	**$7,371,000**	**$322,919,000**
Administrative Budget Unit	**Current Forecast**	**FTE Authority**	**GF-State**	**GF-Federal**	**Other**	**Total 2011 Funding**
R00 - Direct Client Support	No	2,443.8	$ 93,542,000	$ 95,722,000	0	$189,264,000
R01 - Licensed Resources	No	161.3	7,901,000	3,945,000	0	11,846,000
J60 - Federal and Local Grants	No	13.7	3,355,000	13,370,000	$ 414,000	17,139,000
J50 - Child and Family Services	No	183.0	12,021,000	13,094,000	896,000	26,011,000
Total Admin Budget		**2,801.8**	**$116,819,000**	**$126,131,000**	**$1,310,000**	**$244,260,000**
Total CA Budget		**2,801.80**	**$306,947,000**	**$251,551,000**	**$8,681,000**	**$567,179,000**

Behavioral Rehabilitative Services is a temporary, short-term intensive support and treatment program to stabilize youth and assist them to achieve permanency. Behavioral Rehabilitative Services is contracted for a total budget of $61 million. The number of clients is included as part of the foster care caseload forecast. However, the 2009–11 Appropriations Act directs that the behavioral rehabilitative service not be included as part of the per capita cost. Therefore, this caseload is pulled out of the calculation for the forecasted foster care budget; this budget no longer increases or decreases with the forecast changes.

Family Support Services provide culturally appropriate skill-building services as part of a comprehensive case plan to keep children safely in their own homes. This category includes evidence-based programs to prevent the need for or reduce the duration of foster care placements. The $38.9 million budget for Family Support Services is primarily spent on in-home services, which are not part of the caseload forecast. However, RCW 74.13.360 directs the department to consolidate and convert its child welfare service contracts into performance-based contracts, and the child welfare services definition includes in-home services. Therefore, a majority of these services are included as part of the request for proposal process.

Transitional Services for Youth include short-term, temporary placement options for youth missing from home and those in conflict with parents or guardians. The $7.7 million budget includes funding for crisis residential centers, secure crisis residential centers, Hope centers and responsible living skills programs. Due to the temporary nature of these programs and the fact that the majority of services are not for dependent youth, a large portion of these services will not be included in the service array provided by lead agencies.

Adoption Support Services are provided through agreements with adoptive parents to support the adoption of foster children. The adoption support budget will be managed by the Children's Administration as the agency provides a monthly cash subsidy to adoptive parents pursuant to an adoption support agreement.

Victims Assistance Services support domestic violence prevention shelters, children's advocacy centers and services for sexually aggressive youth. This budget will be retained by the Children's Administration to provide safe emergency shelters and homes for victims of domestic violence and their children who do not have open dependency cases.

Foster Care Services help families, children and placement providers to meet costs associated with out-of-home placements. A portion of the $106.8 million budget will be retained by the Children's Administration for foster parent maintenance payments, translation of documents, foster parent training and a cost share agreement with the Division of Developmental Disabilities.

The following table identifies contracted services that will be paid by contracted lead agencies and those that will be paid by the Children's Administration.

Children's Administration 2011 Estimated Funding to Lead Agencies

Service Budget Units	SFY 2011 Appropriation	*Estimated Annual Funding	
		Children's Administration	Lead Agency Contracts
Behavioral Rehabilitative Services	$61,032,000	0	$61,032,000
Family Support Services	38,906,000	$5,175,000	33,731,000
Transitional Services for Youth	7,685,000	6,282,000	1,403,000
Adoption Support Services	100,720,000	100,720,000	0
Victims Assistance Services	7,806,000	7,806,000	0
Foster Care Services	106,770,000	47,287,000	59,483,000
Total	**$322,919,000**	**$167,270,000**	**$155,649,000**

* Based on current total fund appropriation levels. Amount of actual funding will reflect the final Fiscal Year 2012 appropriation for the Children's Administration.

REINVESTMENT PROPOSAL

Caseload Savings

The current budget process does not allow DSHS to retain and invest forecasted savings from successful reductions in foster care caseloads. A successful reduction is one in which a child safely returns home, is adopted or finds another safe and permanent placement. Such savings reduce the total appropriation authority for the Children's Administration.

Currently, caseload expenditures for out-of-home services and adoption support services are matched with federal Title IV-E funding at the Medicaid match rate. In state Fiscal Year 2011, total Title IV-E funding for the Children's Administration is nearly $140 million.

The legislation requires that a reinvestment proposal consider reinvestment in evidence-based programs designed to prevent the need for or reduce the duration of foster care placements. Evidence from two studies[1] conducted by the Washington State Institute for Public Policy suggest that reinvestment into certain preventive or intervention programs not only improves outcomes for children, but also generates long-term monetary benefits in excess of program costs. For example, savings of $2.59 is realized for every $1.00 expended on Intensive Family Preservation Services that adhere closely to the Homebuilders model.

Not all preventive and intervention services yield the same results, so careful consideration must be given as to which services will benefit from reinvestment funding.

It also should be noted that in-home services provided to children and families are not eligible for Title IV-E funds unless the state is granted a Title IV-E waiver. At this time, DSHS is working at the national level to allow new Title IV-E waivers, which would permit retaining federal funding for preventive services.

Calculation of Reinvestment Savings

For every child who is safely reunified or finds a safe, permanent placement, the Children's Administration no longer makes a family foster home maintenance payment. This saves an average of $837 each month, or slightly more than $10,000 annually. About 20 percent of these funds are Title IV-E, with the remainder being General Fund-State (GF-S). Savings that could be considered for reinvestment are limited to the GF-S funds, as Title IV-E does not cover preventive services.

It is proposed that at least a portion of the GF-S savings be reinvested into programs that are designed to prevent the need for or reduce the duration of out-of-home foster care placements.

To determine how to calculate potential savings allowable for reinvestment, several decision points should be considered before defining caseload savings in child welfare. Each decision point includes options as indicated below.

[1] Intensive Family Preservation Programs: Program Fidelity Influences Effectiveness-Revised, February 2006; Evidence-Based Programs to Prevent Children From Entering and Remaining in the Child Welfare System: Benefits and Costs for Washington, July 2008.

First, what should be included when calculating savings?

- Consider the total Title IV-E and GF-S funds for foster care services as well as payments for adoption support. Caseload savings would be the net of caseload increases in adoption and/or per capita cost increases.
- Consider only the foster care maintenance caseload funding to determine the caseload savings amount.
- With either option, savings would be based on the GF-S component, unless Washington gains a Title IV-E waiver.

Second, how much of the GF-S savings would be attributed for reinvestment?

- Any GF-S savings would be available.
- A specified percent of GF-S savings would be available.

Third, how will caseload or per capita cost increases be handled?

- Foster care caseload growth is fully funded.
- Foster care caseload growth is only partially funded.

Giving full consideration to each question, the following proposal outlines how savings for reinvestment will be calculated and three reinvestment options.

Developing a Reinvestment Baseline

To determine the amount of funding available for reinvestment, the actual/forecasted family foster home (is displayed as FFH in the table below) maintenance payment expenditures (forecasted = forecasted caseload x per capita cost) will be measured against a baseline year. The difference between the two products will be the amount of funding available for reinvestment. The baseline year will be adjusted annually using the final and approved March caseload forecast. For illustrative purposes, reinvestment funding will be calculated as follows:

Baseline Year		
March 2011 FFH Monthly Forecast	**March 2011 FFH Monthly Per Capita**	**Baseline Funding (x 12 months)**
5,534	$836.89	$55,576,190
Year 1 Performance		
March 2012 FFH Monthly Forecast	**March 2011 FFH Monthly Per Capita**	**Baseline Funding (x 12 months)**
5,000	$836.89	$50,213,400
Year 1 Reinvestment Funding (Baseline Less Year 1)		
Total Funds	**Title IV-E**	**GF-State (available reinvestment)**
$5,362,790	$1,072,558	$4,290,232

Adjusted Year 2 Baseline		
March 2012 FFH Monthly Forecast	**March 2012 FFH Monthly Per Capita**	**Baseline Funding (x 12 months)**
5,000	$832.00	$49,920,000
Year 2 Performance		
March 2013 FFH Monthly Forecast	**March 2012 FFH Monthly Per Capita**	**Baseline Funding (x 12 months)**
4,800	$832.00	$47,923,000
Year 2 Reinvestment Funding		
Total Funds	**Title IV-E**	**GF-State (available reinvestment)**
$1,997,000	$399,400	$1,597,600

As the model suggests, an annually adjusted baseline re-sets the benchmark so that reinvestment opportunities are linked to higher levels of performance. For example, 5,534 children were in out-of-home placements in the benchmark year. After Year 1, the number of children dropped to 5,000, and the difference resulted in a net savings (holding the per capita constant at the appropriated level of $836.89). In Year 2, the new baseline is set at 5,000 so that reinvestment savings can be realized only when performance improves over the previous year.

It is anticipated that this model will reduce the amount of reinvestment funding available over time as the number of children in out-of-home placements decreases and a new lower trend line develops.

A reduction in the number of children in out-of-home placement is necessary to realize savings for reinvestment opportunities. This model identifies how reinvestment funding will be calculated, but there is no guarantee that lead agencies will be eligible to receive reinvestment funding.

Eligibility for Reinvestment Funding: Linking Performance to Funding

A fundamental tenet of performance-based contracts is to link performance to funding. In fact, the legislation requires that the Children's Administration link a contractor's performance to the level of reimbursement for services. Over time, more funding should be channeled to lead agencies that have proven to be high-performance organizations. Savings will be distributed among the lead agencies based upon each agency's relative performance outcome.

To that end, a lead agency will be eligible for reinvestment funds only when it has demonstrated progress in the following areas:

- The safe reduction in the number of children placed into out-of-home care.
- The safe reduction in the time spent in out-of-home care prior to achieving permanency.
- The safe reduction in the number of children returning to placement following permanency.

Other Considerations

The transition to performance-based contracts promotes the need for greater funding flexibility to better meet the needs of children and families and to achieve desired outcomes. The Legislature has expressed an interest in allowing at least some reinvestment of caseload savings in evidence-based approaches for families.

How reinvestment funding will be used requires the same consideration given to how savings are to be calculated. For example, how will forecasted caseload increases be funded? If performance-based contracts lead to an increase in finalized adoptions, how will adoption subsidies payments be funded?

The state could consider three options for funding caseload increases and adoption support subsidies. The first two options assume that savings must be achieved on a statewide basis. The third option provides reinvestment based on savings for each lead agency.

Option 1

Make the statewide foster care and adoption support forecasts whole before reinvestment funding is made available. The calculation would be:

Reinvestment funding — **Forecasted caseload increases and per capita costs for foster care and adoption support** = **Savings for reinvestment**

As children transition to permanent placement through adoption, the state's fiscal obligation for adoption support increases. Therefore, this option would likely result in the lowest amount of savings available for reinvestment.

Option 2

Make only the statewide foster care forecast whole before reinvestment funding is made available. The current adoption forecast would remain unchanged. The calculation would be:

Reinvestment funding — **Forecasted caseload increases and per capita costs for foster care only** = **Savings for reinvestment**

While this option provides more savings for reinvestment than Option #1, it still requires the foster care caseload for the entire state to be balanced before any savings are available for reinvestment.

Option 3

Fully differentiate reinvestment funding from the foster care and adoption forecasts. Full reinvestment savings would be available to providers who have demonstrated attainment in the three outcomes described. Foster care and adoption support forecasts would continue to fund caseload and per capita increases when necessary.

This option provides the maximum amount of savings available for reinvestment.

Recommendation

Reinvestment is important as it prevents child welfare agencies from being "punished for success" (i.e., losing funding when fewer children are in out-of-home care or if children are "stepped down" to less restrictive forms of care). Although there are many approaches to reinvestment, OFM recommends Option #2. This recommendation will allow funds for reinvestment to lead agencies only if the entire system can achieve savings. Agencies that do not perform well will not have their contract continued, so eventually the high-performing providers will be rewarded for their performance. This option also protects the state's limited fiscal resources. Reinvestment savings for high performers will be distributed to lead agencies that meet performance measures, based upon each agency's relative performance outcome.

Reinvestment provides the agencies with a mechanism to prevent out-of-home care and reduce length of stay through such "front end" services as family preservation and reunification. Reduction in the number of children in care clearly results in lower maintenance costs and may result in lower administrative costs. This type of reinvestment can lead to approved child outcomes, including permanency.

Next Steps

Forecasts

To help incentivize the expansion of prevention and early intervention services, we recommend that the caseload forecast and budgeting approaches for child welfare services be modified to improve permanency and well-being outcomes for children and families.

The current process for developing caseload and funding information is as follows:

- Caseload Forecast Council staff work with agency, legislative and OFM staff to develop a foster care caseload projection.
- Agency, OFM and legislative staff identify per capita caseload costs based on actual expenditures.
- Agency, OFM and legislative staff use forecast and per capita to build maintenance level budgets.
- Agency, OFM and legislative staff may propose policy and/or funding changes and include in the policy level budgets.

The forecast process would remain relatively the same, except that the funding amount included in the agency, OFM and legislative budgets would reflect the continuation of some level of reinvestment funding due to caseload reductions.

As identified above, savings from reduced foster care caseloads would be budgeted and could be used for reinvestment in prevention and intervention programs by lead agencies to the extent that the caseload costs are covered up to the baseline level of funding. Periodic reconciliation of the caseload would be necessary so that increases in caseload are funded in the baseline appropriations.

Data Needs

The most important data need is for the Caseload Forecast Council to forecast in-home cases along with out-of home cases. There will also need to be a mechanism to track performance by each contracted provider, so both in-home and out-of-home caseloads will need to be forecasted by region. Many factors influence caseload levels, and it would be useful to track these:

- Length of stay by placement type
- Entry rates by placement type
- Exit rates by placement type
- Recidivism by placement type
- Participation rate as a proportion of the state population

Fully meeting these data needs will likely require additional resources at the Caseload Forecast Council.

Provisos

Currently the Children's Administration budget has 27 provisos that earmark approximately $205 million in total funds. Due to the new request for proposal and the fact that all contracted child welfare services will be paid to successful lead agencies, provisos will be difficult to track. In addition, a more flexible budget will maximize the ability of contractors to achieve savings.

Budget Structure Change

Beginning July 1, 2011, the performance-based contracts for child welfare services will be in place. A new budget category will be created to budget and pay for the consolidated contracts.

WASHINGTON STATE OFFICE OF FINANCIAL MANAGEMENT
INSURANCE BUILDING ◆ PO BOX 43113
OLYMPIA, WA 98504-3113 ◆ (360) 902-0555 ◆ FAX (360) 664-2832