

# Iowa Department of Human Services



## *Foster Group Care Rate Methodology Workgroup Final Report & Recommendations*

**December 2012**

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## **Foster Group Care Rate Methodology Workgroup** Final Report and Recommendations

This report summarizes the work undertaken and recommendations submitted by the Foster Group Care Rate Methodology Workgroup. The group's purpose, membership, work processes, options considered, and recommendations are outlined below.

### **Workgroup Purpose and Background**

The Iowa Department of Human Services (DHS) formed the Foster Group Care Rate Methodology Workgroup to gather input in a public-private partnership model with the mission to ensure the foster group care service program remains a healthy, viable option in the child welfare service array. The Workgroup's goal was to ensure an equitable payment (rate) methodology by reviewing the current structure, by making recommendations regarding changes needed, and by proposing an implementation plan for any approved changes.

The Workgroup's chartered tasks included to:

- Fully evaluate the currently established rate setting methodology, to include:
  - 1) an assessment of the value of and the need for cost reporting;
  - 2) an outline of the reasons current rates are so variable, including between contractors offering the same licensed level of service; and
  - 3) an evaluation of the information available in cost reports that were completed by foster group care contractors for the remedial services program.
- Develop a set of recommendations to be delivered to the DHS Chief Financial Officer and the Adult, Children, & Family Services Division Administrator regarding possible changes to the rate setting methodology, associated projected changes in cost for the service, and a proposed timeline for implementation.

Title IV-E of the Social Security Act requires state and local child welfare systems to provide "payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to the child, and reasonable travel to the child's home for visitation".<sup>1</sup> Under the Adoption Assistance and Child Welfare Act of 1980, states receive federal funding (IV-E) for foster care maintenance costs as long as they meet certain requirements in their state plans. However, federal law does not address how states determine the cost of providing care, what specific items and services are included in the broad categories of reimbursable costs, or what methodologies can or should be used to establish reimbursement rates for foster care. States have flexibility to set their own rates using their own methods.

This study comes at a time when both State and Federal revenue sources used to fund child welfare programs, including foster group care, are increasingly limited and are stretched by increasing demands. At the same time, the State and DHS budgets are under constant scrutiny for maximizing the return on investments (expenditures) with the high demand for quality, sustainable services.

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<sup>1</sup> Social Security Act, as amended by the Child and Family Services Improvement Act, effective October 1, 2006, Section 472 [42 U.S.C. 672]; Section 475, 4A [42 U.S.C. 675].

This study recognizes that current foster group care provider rates continue to lag behind the most recognizable inflationary measure, the Consumer Price Index – Urban (CPI-U). Since 1998, provider increases have occurred at the discretion of the State Legislature, via the DHS Appropriations bills. The most common inflation index, the CPI-U, has outpaced these provider increases by over 19% since December 1998.

The Workgroup also determined that there is currently no uniform way of reporting comparable costs across all foster group care providers in order to examine concrete differences. While the Workgroup examined current cost reporting procedures and data from the most recent verified cost reports from nine (9) current foster group care services (FGCS) providers, noted discrepancies in provider reporting made the current validity of existing data from these cost reports somewhat unreliable as a tool in proposing immediate rate changes based on that data. However, the Workgroup notes that generally current rates are not reflective of current reported costs. The Workgroup's recommendations will include cost reporting analyses and suggestions for future cost reporting requirements that verify accuracy and allowability of costs in an effort to determine a timely and equitable reimbursement system.

### **Workgroup Membership**

The Workgroup was convened by DHS, as facilitated by Jody Lane-Molnari, Executive Officer II, Division of Fiscal Management. Workgroup participants included:

#### **Public Partners:**

- Marc Baty, DHS Service Area Manager – Cedar Rapids
- Jim Chesnik, DHS Group Care Program Manager
- Jana Dunt, DHS Service Contract Support Management Analyst

#### **Private Partners:**

- Liz Kurtt, Budget Manager-Finance, Lutheran Services in Iowa
- Michael Luedtke, VP of Finance, Hillcrest Family Services
- Brad Mellencamp, Chief Financial Officer, Youth Homes of Mid-America
- Laura Parker, Audit Manager, Myers & Stauffer, L.C.
- Dennis Petersen, Director-Operations, Magellan Behavioral Health
- Claire Richards, Controller, SequelCare of Iowa - Woodward Academy

A number of interested persons were also in attendance and observed proceedings at several meetings. Generally, groups represented included the Coalition for Children & Family Services in Iowa; Feltner & Heller, Attorneys at Law; Family Resources, Inc.; and Hillcrest Family Services.

### **Workgroup Process**

The Workgroup's responsibilities included the chartered tasks as described in the Workgroup Purpose and Background section above.

At the first face-to-face meeting, the Workgroup agreed on a set of core Guiding Principles:

1. This task represents a partnership between providers and DHS
2. Our considerations must be budget conscious and budget responsible, recognizing that the DHS budget is finite and must continue to serve the number of children represented in our budget requests.
3. We recognize that cost increases are inevitable and inflation is inherent.
4. We must recognize the mix of Federal and State funds in the group care program and the associated legal obligations associated with these funding sources.
5. Consideration should account for all marketable costs of providing group care services (i.e., salaries, benefits, occupancy costs, administrative expenses, etc).
6. There must be a balance between cost containment and service need.
7. DHS remains committed to performance-based contracting that includes incentives for outcome achievement mixed with base payments that meet providers' needs.
8. Recognition of complementary funding sources that create the total available funding for children's needs. However, any proposed rate methodology will focus exclusively on the group care per diem as defined and purchased by DHS.
9. Short-term decisions must be mindful of long-term child welfare goals.
10. Assure that methodologies identified are useful, non-burdensome, and fair to both providers and DHS.

The Workgroup acknowledged that in developing any future option for changes to the current rate setting methodology, consideration must be given to these Guiding Principles.

The Workgroup met in multiple face-to-face meetings and conference calls between September 5, and December 5, 2012. The group researched and considered several sources of information and different cost methodologies, including:

1. Historical rate setting methodology under the Rehabilitative Treatment and Supportive Services (RTSS) administrative rules and Provider Handbook;
2. Verified cost report data available from select current foster group care providers;
3. Inflationary and "market basket" indices designed to measure changes in prices paid for a fixed bundle of goods and services, including the Consumer Price Index – Urban, published by the Bureau of Labor Statistics, and Expenditures on Children by Families, published by the USDA;
4. Magellan Behavioral Health rate setting methodology for behavioral health intervention services (BHIS);
5. Rebasement and other cost adjustment formulas, typically used in Medicaid services' rate methodologies; and other ways to use cost reports for reimbursement; and
6. Rate setting methodologies used in other states.

### **An Assessment of the Need for Cost Reporting**

Financial and Statistical Reports (AKA cost reports) are required to be submitted annually by foster group care providers under contracts, pursuant to Request for Proposal (RFP) ACFS-11-115. Fourteen (14) foster group care providers operating under these contracts have historically submitted cost reports; one (1) had an exception and did not.

Myers & Stauffer, L.C., an independent contractor for the Provider Cost Audit and Rate Setting Unit, verify these cost reports.

DHS' Division of Fiscal Management currently uses available cost information from these verified cost reports to establish the child welfare service and group care maintenance portions of the total group care per diems for Federal Title IV-E claiming. DHS must use a federally acceptable method to calculate and substantiate the service-maintenance split in the foster group care per diem to maintain Federal Title IV-E claiming of funds in the future.

Iowa Code Chapter 8F requires service providers who receive more than \$500,000 in a state fiscal year to provide financial information relative to the expenditure of State and Federal funds from their service contracts. Cost reports are used to verify costs by categories of contracted services. The Department also uses cost report data to provide information to the State Legislature and interested stakeholders. Additionally, cost reports can be used to establish that the Department does not overpay individual foster group care providers.

### **An Assessment of the Value of Cost Reporting**

The Workgroup reviewed the following identified pros and cons of cost reporting for the purpose of reimbursement:

#### Pros: Value and benefit of cost reports:

- It is a standardized tool that nearly all providers use and are familiar with; DHS already requires the cost report so there isn't an extra burden on providers
- Cost reports could be used to ensure rates align with costs
- Cost reports could be used as a comparison tool: providers compared to other providers; providers compared to themselves over time; and/or costs compared to national or industry data
- DHS has a method for verifying the cost reports
- As long as there are no caps or limits on categories of expenses, a cost report rate setting methodology allows for provider flexibility in expenses to meet agency goals and objectives
- If there are caps or limits on categories of expenses, a cost report rate setting methodology allows DHS to limit exposure on identified categories of expenses
- Information available includes a method to determine a utilization factor
- Cost report data can be used for policy decisions, justifying increases or decreases in funding, support federal match dollars, setting cost based rates, establishing rate maximums, establishing periodic rate adjustments, etc

- If used for rate setting, cost reports provide data which can be used for customized rates

Cons: Reasons cost report information is not or would not be helpful:

- Timeliness of availability of data may be a concern
- Reliability of data across providers and whether reporting is uniform or consistent can be driven by limited capabilities of accounting systems and/or preparers
- Data does not include the costs providers would like to incur
- Requiring cost reporting does not ensure or promote efficiency and does not measure effectiveness of service
- Cost reports do not explain why costs vary across providers
- Data does not account for the use of all, or other funding sources (private funding)

The Workgroup agreed the cost report is the only tool currently available to the Department to trend a payment rate based on actual costs; and, cost reports provide the only provider specific data reasonably obtainable. The biggest drawbacks of the cost reports are the timeliness and consistency issues; however, timeliness can be overcome by using inflationary measures to adjust the rates and consistency can be impacted with training and provider support.

The Workgroup cautions that using only the cost report, as a means for a rate setting methodology, would ultimately reward provider inefficiency. The Workgroup endorses using the cost reports to inform a rate setting methodology -- along with other strategies, such as (but not limited to) setting rate maximums, determining reimbursement maximums/floors/limits for specific types of costs, use as part of a blended rate with "market basket" indices, or with the use of standard deviations for total costs or categories of costs.

**Outline of Reasons Current Rates are so Variable**

It is important to note that DHS maintains provider rates for three historic "levels" of foster group care: community, comprehensive, and enhanced. However, the definitions for the two services that make up the core foster group care per diem, child welfare service and group care maintenance, are the same for all levels of group care. These definitions are included in Appendix 1.

The only differences between the levels of group care are identified by licensure requirements, as found in 441 IAC Chapters 114 and 115, and are summarized below:

<b>Foster Group Care Level</b>	<b>Licensure Required</b>	<b>Staff-to-Client Ratio</b>
Community-level	Community Residential	1 to 8
Comprehensive-level	Comprehensive Residential	1 to 5
Enhanced-level	Comprehensive Residential	1 to 3

Under the former RTSS programs, including foster group care services, providers initially submitted projected and then actual cost reports following the end of their respective fiscal years. From November 1993 through June 1996, each provider's rates were based entirely on their cost reports. Effective July 1, 1996, rates were frozen at the 6/30/96 established rates, plus 2%. DHS established a weighted average rate for virtually all RTSS service codes and cost reports were no longer required, effective July 1, 1996.

Effective July 1998, established RTSS rates were negotiated based on cost-related factors on a rate-by-rate, provider-by-provider basis. These newly negotiated rates were largely set based on the negotiation skills of the providers and DHS; some rates were increased, some rates were decreased, and some rates remained the same based on these negotiations. In total, collectively, rates were increased by approximately 2.01%.

Since the original negotiation of RTSS rates, any rate adjustments have been applied equally to each service category. For foster group care providers, there have been eight legislated across-the-board rate increases and one executive across-the-board rate decrease for a cumulative 14.81% rate increase, between July 1998 and July 2012. Current rates paid to FGCS providers are included in Appendix 2.

### **Outline of Reasons Current Costs are so Variable**

While the rate variability is largely explained by the previous negotiation process and historic rate setting methodologies of the FGCS program, the Workgroup decided an evaluation of the comparison of costs between providers was more useful to this discussion. Therefore, the Workgroup examined the data from the last verified cost reports for nine (9) separate foster group care providers.

A verified cost report is a Financial and Statistical Report as submitted by a provider to Myers & Stauffer, L.C. In agreement with DHS, only those cost reports submitted by providers that have reported utilization of at least 10,000 units (bed days) of child welfare service or group care maintenance within the provider's fiscal year are verified. Verification entails a risk-based desk review of the submitted report based on the accounting and cost principles of OMB A-87, a review of actual and allowable costs, and a trend analysis of provider-specific data.

Data from the verified cost reports were examined for the following types of group care providers:

- One provider offering only community-level group care
- One provider offering only comprehensive-level group care
- Two providers offering only enhanced-level group care
- Two providers offering both community- and comprehensive-level group care
- Three providers offering both comprehensive- and enhanced-level group care

Specifically, the Workgroup compared cost report data across providers for the Staff Gross Salaries and Staff Numbers (Schedule B) and the Group Care Expense Report (Schedule D), including total service costs, units of service, and calculated unit costs.



Wide variances in the calculated unit cost for both child welfare service and group care maintenance were noted across all levels of care provided. The range for the child welfare service unit cost, for all levels of care, was \$7.15 to \$53.07 per day; the range for the group care maintenance unit cost, for all levels of care, was \$70.76 to \$188.34 per day.

However, when the group examined the weighted average costs, calculated based on the utilization of services by each provider, the range of costs were much closer, particularly for the group care maintenance service.<sup>2</sup> Based on these weighted average costs, the overall range for the child welfare service unit cost for all levels of care was \$17.51 to \$31.10 per day; the range for the group care maintenance unit cost for all levels of care was \$118.22 to \$121.58 per day; and the range for the combined service costs for all levels of care was \$135.75 to \$152.68 per day.

It is noted that potential discrepancies in provider reporting made the comparisons across providers very difficult. The Workgroup cautions that these current reports may be somewhat unreliable for the purposes of setting a new rate methodology; while the cost reports were verified for completeness and reasonableness; neither rates nor reimbursement is impacted by a utilization factor<sup>3</sup>, reporting of indirect costs, and other limitations.

While the validity of existing data from these cost reports was determined to be unreliable as a tool in proposing immediate rate changes, the Workgroup was comfortable in using the data to generalize about reported costs across providers and recommend changes for future consideration.

### **Evaluation of Information Available in Cost Reports**

Cost report schedules collect most information at the agency-level. The most current cost report format used by FGCS providers is the DHS-approved version of the Financial & Statistical Report for Foster Group Care Services.

Data available from the cost report schedules include the following:

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<sup>2</sup> For the three providers offering community-level group care, the weighted average cost was \$17.51 per day for child welfare service and \$118.24 per day for group care maintenance, for a combined total of \$135.75 per day.

For the six providers offering comprehensive-level group care, the weighted average cost was \$31.10 per day for child welfare service and \$121.58 per day for group care maintenance, for a combined total of \$152.68 per day.

For the five providers offering enhanced-level group care, the weighted average cost was \$22.74 per day for child welfare service and \$118.22 per day for group care maintenance, for a combined total of \$140.96 per day.

<sup>3</sup> A utilization factor is calculated on annual actual bed utilization divided by staffed or licensed capacity. FGCS, as a federally funded program, must employ a rate setting methodology that meets federal requirements of allocable costs; the program historically required at least 90% effective utilization (10% or less idle capacity).

- Certification Page: licensed occupancy, staffed occupancy, number of units of service provided (reported for FGCS as bed days), and utilization (total bed days divided by licensed/staffed occupancy).
- Schedule A – Revenue Report: agency-wide revenues broken into categories of fee for services, service reimbursements and investment income, and contributions. The Revenue Report also includes what type and amount of expenses are offset against service costs on the Schedule D.
- Schedule B – Staff Gross Salaries and Staff Numbers: agency-wide count of full-time and part-time staff, full-time equivalent numbers of all staff, positions, and titles, and gross salaries and wages by position for all staff.
- Schedule C – Depreciation & Amortization Expense: agency-wide equipment, buildings, and related party property costs related to tangible and intangible depreciable assets, leaseholds, and start-up costs. Includes original acquisition costs, capital improvements, and depreciation on equipment and buildings owned by the agency as basic fixed asset values by asset grouping.
- Schedule D – Expense Report: agency-wide reporting of total agency expenses, revenue adjustments, excluded costs, allocation of direct expenses to various services provided, and identification of indirect expenses for the agency.
- Schedule E – Comparative Balance Sheet: reports the balance sheet of the agency as of the end of the reporting period; this schedule must coincide with any independent audit report of the agency.
- Schedule F – Cost Allocation Procedures: reports other supplemental information related to agency operations and accounting procedures, including allocation methodologies for indirect costs.
- Schedule G1 – Supplemental Allocation Report, Part I: identifies those accounts from Schedule D that include allowable expenses, specific to the FGCS program, and allocates the expenses to either group care maintenance or child welfare service.
- Schedule G2 – Supplemental Allocation Report, Part II: identifies the remaining direct and indirect FGCS program costs from Schedule D and allocates the expenses to either group care maintenance or child welfare service.
- Allocation of Staff Time Worksheet: is used to report the time study information for each staff type as allocated to group care maintenance, child welfare service, or other programs.

The data from each cost report is used for a risk-based trend analysis at the individual provider level, looking specifically at changes from prior years. The various analyses performed include:

- Determining a baseline for each provider, this allows for a comparison to industry norms and to identify provider-specific accounting practices or concerns
- A detailed analysis of the relationship of certain costs to other identified costs
- A reconciliation of supporting documents (ledgers, trial balances, etc.)

- Ensuring the accuracy of the reports for specific items, such as (but not limited to) excluded costs, ancillary revenues used to off-set expenses, and units of service provided
- Determining the utilization factor and cost adjustments, if necessary
- Determining if time study information is used appropriately

From a risk-based perspective, the two areas that present the biggest risk to the Department are the areas of payroll and occupancy expenses. Payroll as an expense category has the highest dollar value and percentage of expense for all cost categories; time study accuracy affects how these costs are distributed. Occupancy expenses have the highest rate of inconsistency in reporting, as square footage utilization is the measure used, and there is an increasing need for providers to spread these fixed costs across fewer units of service provided as census or placements are reduced.

### **Ways to Use Cost Reports for Reimbursement (Strategies)**

The Workgroup next examined several potential ways that cost reports can or have been used in reimbursement methodologies. This is not meant to be an all-inclusive listing and some options could be combined.

Cost reports could be used to:

- Calculate a reimbursement rate equal to the cost-per-day
- Determine a state-wide fee schedule rate, i.e., equal to the median cost-per-day
- Calculate periodic rebasing of base rates, i.e., every two years
- Determine overall rate maximums
- Determine reimbursement maximums/floors/limits for specific types of costs, i.e., facility costs, training, direct care, food, etc.
- Determine the amount of inflation to apply to a base rate
- Calculate a base rate using a combination of cost report specific data and national market basket indices or industry data
- Trend forward rates that are based on national “market basket” indices
- Determine how to distribute a pool of incentive money
- Determine a starting point for rate negotiations
- Determine accuracy of a base rate or fee schedule

### **Options Considered**

The Workgroup spent considerable time brainstorming and discussing various options and combinations of options for how to use the cost reports and other available “market basket” indices to inform a new rate setting methodology. Consideration was given to both the positive aspects and the less favorable features of cost reporting. Additionally, the Workgroup considered various strategies in determining a fair and equitable rate system.

The Workgroup also discussed the Department using a “reasonableness test” as options are being considered: if one looks at the current options of care for out-of-home placements in a group setting, the three primary placement alternatives are emergency shelter care (as a component of Child Welfare Emergency Services), foster group care, and PMIC-level care. Providers for each of these three services are required to complete cost reports; however, the strategies for determining the rate methodologies for these three services differ.

Shelter care placements are reimbursed at a legislated maximum per diem state rate of \$92.36, with an additional amount set by a statewide average actual and allowable cost up to \$46.65 per day reimbursable by the counties responsible for the placement. Foster group care placements are reimbursed at previously negotiated per diem state rates of \$60.35 - \$80.16 for community-level service; \$64.36 - \$113.14 for comprehensive-level service, and \$100.84 - \$123.58 for enhanced-level service. PMIC placements are currently capped at 103% of a statewide average actual and allowable cost of \$200.89 per day.

The following options discussed are presented in no particular order of preference and some options can be combined:

1. Development of a single rate system (such as by current licensing levels: community & comprehensive)
  - a. This could be as a single base rate
  - b. This could be as a single base rate w/ additional rate enhancements, such as:
    - i. Incentives
    - ii. Program specific additional payments
    - iii. With variable cost centers (occupancy, market, etc)
  - c. This could be a single base rate based on weighted average costs
2. Development of individualized provider rates
  - a. These could be established by negotiation
3. Development of the group care maintenance rate separate from child welfare service rate
  - a. Explore if these services should use the same or different methodologies (i.e., maintenance rate as a single, base rate system; and CW service rate captures provider or program specific services)
4. Development of a rate methodology based on cost reports:
  - a. Establish a minimum utilization factor (such as 90%, as required by federal regulations)
  - b. Determine median rates (on unit cost)
  - c. Determine the weighted averages (on unit costs)
  - d. Establish rates based on total unit costs
  - e. Allow for the adjustment of rates using an inflation factor
5. Recommendation for an on-going methodology
  - a. Allow for the adjustment of rates for inflation
6. Use of “market-basket” indices or not; use these indices as limits or as actual basis for building a rate

- a. Use the USDA Expenditures on Children by Families Midwest indices reported costs for food, clothing, housing, etc.
7. Build a new rate from indices and other data
  - a. Can be used to compare to/against unit costs (and then average)
8. Rate maximums (these may be driven by appropriation limit)
  - a. Lots of possibilities: in unit cost, in cost categories, etc.

## **Recommendations**

### **1. Use cost reports to inform the future rate setting methodology.**

The Workgroup endorses a continuation of the verification process of the Financial and Statistical Reports submitted by providers that have reported utilization of a minimum threshold of units (bed days) of child welfare service or group care maintenance within the provider's fiscal year. Currently the threshold is 10,000 units; the Workgroup acknowledges that as overall utilization of the foster group care service continues to decline statewide, this individual provider threshold will likely need to be reduced.

At a minimum, no less than 60% of FGCS providers' cost reports should be verified and used for the rate setting methodology. Currently, nine (9) out of fifteen (15) FGCS providers' cost reports are verified based on the 10,000 unit threshold.

### **2. Require training of providers on cost reporting.**

Because of the presumed discrepancies and inconsistencies of the cost reports for periods through December 2012, and as discussed in the implementation plan below, the Workgroup recommends requiring the training of provider financial staff on the mechanics of cost reporting. Ideally, training should be done annually; however, at a minimum, the training should be done prior to the cost report periods under any planned or proposed rate modifications (such as rebasing, as discussed below).

### **3. Place limits on certain cost categories during the verification process of the cost reports.**

The Workgroup discussed cost category limitations from a risk-based perspective. This recommendation is made to create a balance between actual reported provider costs and the realistic cost containment of certain types of costs; for example, it is not unusual to limit, by either dollar threshold or percentage, the amount of administrative costs or overhead allocated to a program.

At a minimum, the Department should consider placing cost limits, for the basis of determining reimbursement, on the following cost categories:

- a. Occupancy Costs
- b. Equipment, Vehicle, and Building Depreciation
- c. Administrative Salaries

**4. Use the cost report data to calculate the median cost. Use this median as a benchmark or base rate from which the actual rates can be set.**

The Workgroup discussed the value of this calculation in relation to budgetary constraints. The Workgroup acknowledges it may be unlikely to set initial rates based solely on the median rate calculation; however, the rate methodology should use this calculation as a benchmark of meeting the requirements under Title IV-E of the Social Security Act.

In addition, the Workgroup considered the value of using the median cost versus the weighted average cost. Because these recommendations include using a subset of foster group care providers' cost reports, a weighting to those providers with the most utilization is already included and a median cost is most appropriate.

**5. Use a single rate or single base rate methodology, as opposed to individual provider rates or a negotiated rate system.** This rate system would be similar to other child welfare contracted services.

The Workgroup endorses setting single, statewide rates for each of the two licensed categories of providers:

- D16x: Community-level child welfare service rate
- D19x: Community-level group care maintenance rate
- D26x: Comprehensive-level child welfare service rate
- D29x: Comprehensive-level group care maintenance rate

The Workgroup endorses dropping the D3, "enhanced residential" rate differential and program requirements.

**6. Consider rate enhancements in addition to a base rate, as appropriate, as part of the rate setting methodology.**

The Workgroup encourages, at a minimum, the Department to consider the following, in addition to the single, statewide rates:

- a. Performance-based monetary incentives
- b. Consideration of program-specific rate enhancements, if program-specific differences are apparent that would not otherwise be treatment-oriented (and therefore fall under another rate methodology, such as BHIS services)

**7. Consider an annual inflation factor.**

The Workgroup discussed using a known inflation factor, such as the published CPI-U, to ensure periodic rate adjustments for inflation are addressed and rates do not become unnecessarily unbalanced. In consideration of budgetary constraints, the Workgroup acknowledges it may be unlikely to ensure 100% of the CPI-U inflation factor each year; therefore, the Department should consider a minimum percentage annually (e.g., inflationary adjustment of no less than 75% of the published CPI-U as of December 31<sup>st</sup> each year).

## **8. Use cost reports to rebase the rates no less than every three (3) years.**

The steps involved would include, at a minimum, to calculate an updated median cost based on the current cost report data and to factor in an inflationary factor. The purpose of the rebasing would continue to ensure the rates are reflective of provider costs and to ensure considerations for the inflationary adjustments remain valid.

### **Implementation Plan**

Current FGCS contracts under RFP ACFS-11-115 will expire June 30, 2013. There are up to four, one-year renewal periods authorized under the RFP, which could extend the contracts through June 30, 2017.

The understanding of the Workgroup is the Department intends to use the information presented in this report to think through a new rate methodology to be considered for the next round of RFP's. As such, several steps in this implementation plan are meant to meet the anticipated deadline under a formal RFP process for new contracts to begin July 1, 2017:

- April-May, 2013: Conduct general cost report training for all FGCS provider financial staff. Concerns to be addressed include an overview of the data reported on each schedule and time study requirements. The goal of the training is to improve uniformity, consistency, and validity in reporting across providers.
- July 1, 2013 – June 30, 2014 and January 1, 2014 - December 31, 2014: Typical fiscal periods for which cost reports will be required.
  - Cost reports from these periods would be due from providers between 9/30/14 and 3/31/15.
  - Verification of the cost reports would be completed by approximately 12/31/14 and 6/30/15.
- April-May 2014: Conduct specific cost report training. Issues to be addressed include review of data reported, the verification process to include any changes based on this workgroup's recommendations (i.e., limitations on cost categories and what that means, how the data may be used to inform a new rate methodology, etc.)
- July 1, 2014 – June 30, 2015 and January 1, 2015 - December 31, 2015: Typical fiscal periods for which cost reports will be required.
  - Cost reports from these periods would be due from providers between 9/30/15 and 3/31/16.
  - Verification of the cost reports would be completed by approximately 12/31/15 and 6/30/16.
- January 2016: Potentially begin RFP development for next FGCS procurement
- July 2016: approximate date that cost report data would be available from the most recent cost reports (7/1/14-6/30/15 and 1/1/15-12/31/15). This is the data the Workgroup recommends is used for the establishment of new rates under the new procurement.

### **Consideration for Interim Rate Adjustment**

The Workgroup briefly discussed possible options for rate adjustments within the current FGCS contracts, established under RFP ACFS-11-115. Successful bidders under that RFP were required to demonstrate how the procured services would be provided within the rate limitations established in the RFP.

However, the Workgroup acknowledged the historic unpredictability of rate adjustments for FGCS providers as rate adjustments are legislated through the Department's annual appropriation bill. Cost reports have not been used as the basis for FGCS rate establishment since 1996. In the past sixteen years, providers have received a total of 19.81% in legislated across-the-board rate increases; there was one mid-year 5.0% across-the-board rate decrease by executive order. During the same time period, by comparison, the CPI-U has increased by 34.20%.

The Workgroup encourages the Department to consider interim rate adjustments until a new rate methodology can be established under the future FGCS procurement. Options for consideration discussed included adding payment incentives to the current performance-based contracts, adding a nominal per diem increase to the existing rate structure, or additional across-the-board rate adjustments. Exploration of additional options may be necessary.



## **Appendix 1: Definitions of Child Welfare Service and Group Care Maintenance**

### Current 441 IAC 156.1(234) Definitions.

*“Child welfare services”* means age-appropriate activities to maintain a child’s connection to the child’s family and community, to promote reunification or other permanent placement, and to facilitate a child’s transition to adulthood.

*“Group care maintenance”* means food, clothing, shelter, school supplies, personal incidentals, daily care, general parenting, discipline, and supervision of children to ensure their well-being and safety, and administration of maintenance items provided in a group care facility.

### Definitions as provided to Regional Adult, Children & Families (ACF), October 2006:

*“Child welfare service”* means age-appropriate activities to maintain a child’s connection to the child’s family and community, to promote reunification or other permanent placement, and to facilitate a child’s transition to adulthood. These include, but are not limited to, restorative living skills such as menu planning and cooking, recreation and leisure, job seeking, housekeeping, and transitional or referral services related to permanency.

*“Group care maintenance”* means food, clothing, shelter, school supplies, personal incidentals, daily care and medication management, general parenting, discipline, and supervision of children to ensure their well-being and safety, transportation related to family visitation, and the administrative cost associated with providing food, clothing, shelter, school supplies, personal incidentals and other items to meet the child’s normal daily needs in a group care facility.

**Appendix 2: Current FGCS Provider Rate List, Effective 7/1/12**

Agency	Service Level	Service Type	Service Code	Rate 7/1/12	Combined Rate
<b>Children &amp; Families of Iowa</b>	D2	Service	D267	\$8.22	
	D2	Maint	D297	\$56.14	\$64.36
	D3	Service	D367	\$12.89	
	D3	Maint	D397	\$87.95	\$100.84
<b>Clarinda Youth Corporation</b>	D1	Service	D161	\$10.23	
	D1	Maint	D191	\$69.83	\$80.06
<b>Family Resources Inc</b>	D3	Service	D360	\$12.65	
	D3	Maint	D390	\$86.32	\$98.97
<b>Father Flanagan's Boys' Home</b>	D1	Service	D160	\$7.71	
	D1	Maint	D190	\$52.64	\$60.35
	D2	Service	D260	\$11.94	
	D2	Maint	D290	\$71.04	\$82.98
<b>Four Oaks Family and Children's Svcs</b>	D2	Service	D260	\$11.24	
	D2	Maint	D290	\$76.66	\$87.90
	D3	Service	D360	\$14.62	
	D3	Maint	D390	\$99.74	\$114.36
<b>Hillcrest Family Services</b>	D3	Service	D360	\$13.66	
	D3	Maint	D390	\$93.27	\$106.93
	D3	Service	D361	\$15.79	
	D3	Maint	D391	\$107.79	\$123.58
<b>House of Mercy</b>	D2	Service	D261	\$13.25	
	D2	Maint	D291	\$90.38	\$103.63
<b>Lutheran Services in Iowa</b>	D2	Service	D260	\$14.46	
	D2	Maint	D290	\$98.68	\$113.14
<b>Midwest Christian Services</b>	D2	Service	D260	\$9.45	
	D2	Maint	D290	\$64.47	\$73.92
<b>Quakerdale</b>	D2	Service	D261	\$12.96	
	D2	Maint	D291	\$88.47	\$101.43
<b>Rabiner Treatment Center</b>	D2	Service	D261	\$10.87	
	D2	Maint	D291	\$74.17	\$85.04
<b>Woodward Youth Corp</b>	D1	Service	D160	\$10.24	
	D1	Maint	D190	\$69.92	\$80.16
	D2	Service	D260	\$11.82	
	D2	Maint	D290	\$80.62	\$92.44
<b>Young House Family Services Inc</b>	D2	Service	D261	\$13.74	
	D2	Maint	D291	\$93.81	\$107.55
<b>Youth and Family Resource Services</b>	D1	Service	D160	\$9.43	
	D1	Maint	D190	\$64.37	\$73.80
	D2	Service	D260	\$11.56	
	D2	Maint	D290	\$78.87	\$90.43
<b>Youth Homes of Mid-America</b>	D2	Service	D261	\$11.87	
	D2	Maint	D291	\$80.97	\$92.84
	D3	Service	D361	\$14.35	
	D3	Maint	D391	\$97.93	\$112.28

Final Report: December 10, 2012

### **Appendix 3: Resource Websites**

USDA, Expenditures on Children by Families, annual report

<http://www.cnpp.usda.gov/ExpendituresonChildrenbyFamilies.htm>

Consumer Price Index

<http://www.bls.gov/cpi/>