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TO: Special Committee on Child Welfare Provider Rate Implementation

FROM: Reggie Bicha
Secretary, Department of Children and Families

RE: Child Welfare Provider Rate Initiative

Welcome & Acknowledgements

Chairperson Grigsby and members of the Special Committee, thank you for the opportunity to talk with you today about the child welfare provider rate initiative. This important work, proposed by Governor Doyle and approved by the Legislature as part of the budget bill, 2009 Wis. Act 28, will play a vital role in assuring that children requiring out-of-home treatment services are provided high quality care at an affordable price.

Provider Rate Regulation Goals

The Department of Children and Families wants to ensure that a full range of residential care options are available for children as we create a reimbursement structure that is both fair to providers and taxpayers.

The provider rate initiative will result in:

- more effective use of residential care,
- better outcomes for children, and
- more control over the cost of care

Background

Allow me to share with you some background information.

All providers are regulated by the Department of Children and Families. Each must meet minimum health and safety requirements to be licensed. Current licensing requirements do not reflect levels of quality or performance for any out-of-home care treatment provider.

- Providers of residential care centers (RCC's) and group homes must submit rate information to the Department of Children and Families annually. Their rates are broken down into three portions:
 - room and board,
 - treatment services, and
 - administrative operations.

- Providers must establish rates that are consistent with the allowable cost policy for human service programs. The state role is limited to publishing the rates. These publications are done to assure that rates are applied consistently statewide.

For treatment foster care (TFC) agencies, two different determinates go in to the rate. The first is the child portion of the rate. This is set by the State under the uniform foster care rate policy. These rates are used for all children in foster care and treatment foster care. The administrative portion of the rate, paid to the TFC agency, is determined by the TFC agency. TFC providers generally set their rates on a calendar year basis.

Provider rates are affected by many factors:

- salary and benefit costs of residential or group care staff
- facility operating costs
- food and personal care expenses
- treatment services
- provider administrative operations or overhead
- other services that providers may offer such as education, transportation, and recreation for children.

Some providers, particularly RCCs, may offer multiple service packages with a separate rate for each package. Providers may operate multiple residential care facilities, with different rates at each facility.

All providers are required to conduct fiscal audits and to submit these to the Department for review. In situations where the revenue received by providers exceeds what they are allowed to retain under the allowable cost policy, providers can be directed to make refunds to state (Bureau of Milwaukee Child Welfare and State Foster Care Program), county and tribal child welfare agencies for overcharges.

The Need for Change

The current approach for controlling the cost of care is based on the free market model, where if child welfare agencies feel that the quality of care from a residential provider is not equivalent to the rate charged for that care, the agencies can take their placement business elsewhere. In situations where free market models work well, purchasers have multiple choices of providers and the competition between providers keeps costs down.

Yet, in our system, this type of competition does not exist.

In Wisconsin, the decentralized nature of the county-based child welfare system makes it difficult for child welfare agencies to use their purchasing power effectively. Individual child welfare agencies have very limited control over the residential care market and thus little influence over provider rates. In addition, the need for residential care placements is unpredictable and beds are usually needed quickly, resulting in child welfare agencies having to pay the going rate for whatever beds they can find. Once placed, agencies are reluctant to transfer children to a new placement since placement changes are traumatic for children.

Wisconsin law further prohibited the fair market approach from working. State law limited a county or state agency from negotiating rates with providers unless that county or state agency

had 75% or more of all placements in that facility. For a residential care center that has 100 beds, it is virtually impossible that any one county, even Milwaukee, would have 75 or more beds occupied at the same time.

The recent experience in Wisconsin is that RCC, group home and TFC administrative rates have gone up over 5% annually, in excess of the rate of inflation, for the past 10 years. There is also wide variation in rates across providers, with higher rates not necessarily associated with higher quality of service. And, there is no connection to outcomes for children. Fees are paid on a nightly basis. The longer a youth stays in a facility the longer the facility gets paid, regardless of whether the child is improving or reaching permanency. This is not an effective investment of taxpayer dollars and does nothing to ensure the best outcomes for our children.

In addition, reviewing provider audits after the close of the provider's fiscal year is not a very effective method of preventing overcharges.

Lastly, the current rate methodology has no connection between statewide bed capacity and need of children being served. Many state-run child welfare systems routinely review the types of services needed for the children they are serving, then work with the provider community to align needs with services. This way, the state is not subsidizing unused beds in some facilities while struggling to find residential care for underserved populations. No such analysis occurs in Wisconsin.

To address these issues, Act 28 specifies that the Department implement a system of setting child welfare provider rates. Provider rates will be frozen in calendar year (CY) 2010 at the CY 2009 amounts to allow time to complete an actuarial-type cost study to determine the different cost factors that should be considered for rate setting and to issue administrative rules specifying the rate setting process. The rate approval process will begin for CY 2011 rates, with provider rates approved by the Department by October 1, 2010.

For RCC providers that operate "Type 2" secure facilities, the Department will consult with the Department of Corrections to determine the appropriate rate for the secure facility.

For Wisconsin to meet the needs of children with severe emotional or behavioral needs, we must have strong and effective providers of residential care, group care and treatment foster care available throughout our state.

By working together – the State, Counties, tribes and Provider Industry – we can come up with a better way for this system to work.

The Department looks forward to working with the children and family providers and other partners to develop a new methodology that adequately reimburses providers, is aligned with the needs of the children we are serving, and is a system that Wisconsin taxpayers understand and can afford.

The Department also looks forward to working with the special committee to consider issues that will shape development of the new administrative rules.

Thank you for the opportunity to meet with you today.