casey family programs

Review of Performance Based Contracting Models in Child Welfare

History of performance based contracting (PBC)

State human service agencies, and more specifically child welfare agencies, have been contracting with providers for services since the 1960s. Today, more publicly funded human services are provided through contracting than directly from agency employees, and this trend is on the rise. It is estimated that by 2010 about 80% of all human service funding will involve contractual arrangements (Martin, 2001).

The concept of specific expectations with respect to performance has been around since the inception of contracting with human service providers. Historically, these expectations have been more related to inputs and process objectives, such as number of services provided, service units, etc…, than to that of outcomes. Recently, however, child welfare agencies have become increasingly interested in purchasing results rather than just the delivery of services.

This shift away from inputs or process objectives towards outputs or outcome objectives reflects general trends in the child welfare field towards more accountability. Public child welfare agencies are now expecting the same performance out of their private contractors as the federal government expects of them. The driving force behind performance contracting in the public sector (especially at the state and local level) is the political pressure that many public agencies are now under to both privatize their services and justify their program funding through measurable performance indicators.

Currently, there are about twelve state human service agencies that implement performance based contracting agency wide, with many other states considering them for the future (Martin, 2001). State legislation in Florida and Maine mandated the use of PBC in *all* their human service contracts. According to a 2005 Child Welfare League of America survey, 34 states responded that they are experimenting with performance based contracting for one or more child welfare services and nearly half of those initiatives include bonuses or penalties linked to key performance indicators or outcomes.

Definition of performance based contracting

To date there is no universally accepted working definition for performance based contracting, or PBC, but Lawrence Martin puts forth a general definition:
"*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."* (Martin, 2003)

Performance based contracting typically:

- Emphasizes results related to output, quality, and outcomes rather than how the work is performed
- Has an outcome orientation and clearly defined objectives and timeframes
- Uses measurable performance standards and quality assurance plans
- Provides performance incentives and ties payment to outcome

The Systems Model and Performance Measures/Standards Applied to Human Services Programs

Inputs	Process	Outputs	Quality	Outcomes
Staff	Service delivery	Service volume	Timeliness	Results
Facilities	Statements of work	Units of services	Reliability	Impacts
Equipment	Methodologies		Conformity	Accomplishments
Materials	Treatment Modalities		Accreditation	

*Inputs and process are design focused, while output, quality, and outcomes are performance focused***.**
Source: Martin and Kettner (1996).

Benefits of performance based contracts

If PBC is implemented whereby contractors are rewarded based in outcomes and performance rather than process or methods, the benefits of PBC can include:

- Improvement and delivery of better services and thereby improved child outcomes
- Agencies can clarify program goals and expectations
- Fiscal flexibility for providers to achieve desired results
- Groundwork set for program evaluation and monitoring
- Encouragement and promotion of contractors to find innovative and cost effective ways to deliver services
- Less frequent but more meaningful monitoring

Models of Performance Based Contracting in Child Welfare

In this section, the performance based contracting models of six different human service agencies are described. The state human service agencies selected for discussion were identified in the literature as the most common approaches to PBC.

Performance based contracting models typically differ in some or all of the following ways:

- Amount and timing of payments
- Extent to which incentives and disincentives were offered
- Level of financial risk assumed by contractor
- Type of information collected from contractors and the frequency of reports on performance
- Extent that contractor were involved in developing performance indicators
- Reinvestment of the savings

Model #1: Florida Performance Reporting Method
Low Contractor Risk
States with similar models: Maine

A 1998 statute mandated the Florida Department of Children and Families (DCF) to privatize foster care and all related services throughout the state by 2003. As part of this strategy to reform child welfare services, the legislature also passed a law requiring all DCF contracted client services to establish performance measures and standards to be achieved by the providers. The primary force behind Florida's shift to performance based contracting was a concurrent national movement towards performance-oriented government.

Under this model, the department's role has shifted from primary provider of services to purchaser of services. As of December 2005, DCF had about 500 contracts with a wide range of providers for direct care services including case management, foster care placement, and substance abuse and mental health services. (OPPAGA, 2006). The performance indicators are negotiated each year and included in the contract.

Florida DCF does not directly tie contractor compensation to performance, but it does tie performance of the providers to contract renewal. The contractors that fail to meet their performance standards first receive technical assistance by the agency. If they continue not to meet expectations, their contracts may be terminated. Performance contracting in Florida is therefore designed to hold the providers accountable for their performance through the threat of non contract renewal.

Highlights of the Florida Model:

- Performance measures (output, quality, outcome) are included in contracts and reported on by contractors
- Contractor baselines for each of the performance measures are determined and then service level targets are negotiated or predetermined by DCF
- Contractors required to track and report on these measures
- Contract extension is tied to level of accomplishment but compensation is not
- Little contractor risk because cost reimbursement continues to be primary payment

Examples of Contractor Performance Measures and Standards:

Child Abuse Prevention

• Percent of families who complete child abuse prevention programs of 3+ months who are not abused/neglected within 12 months	96%
• Per capita child abuse rate	23/100

Child Protection

• Percent of children reunified within 12 months	76%
• Number of investigations not completed after 60 days	0
• Percent of foster children who were subjects of reports of maltreatment	1%

Source: http://dcfdashboard.dcf.state.fl.us/

Model #2: Kansas Milestone Method
Moderate Contractor Risk
States with similar models: Michigan

In 1996-97, Kansas became the first state in the nation to fully privatize its adoption, foster care, and family preservation services. Kansas's Department of Social and Rehabilitation Services (SRS), previously the state's largest provider of adoption and foster care services, is now strictly a purchaser of services and contract monitor with respect to child welfare services. The goal of implementing PBC in Kansas was to decrease the amount of time that children spent in foster care.

Kansas's original managed care approach to PBC was one of the most innovative approaches taken by a human services agency at that time. Under this approach, contractors were paid a one time, up-front, or capitated, fee per child. Contractors were then required to provide all services needed until the child exited care and the case was closed. Adoption providers, for example, were paid a fee of $18,000 for services. This provided a strong incentive to place the child for adoption as quickly as possible. In order to avoid perverse disincentives, the SRS also included quality standards in the contract.

Although initial findings revealed that outcomes achieved by the contractors equaled or exceeded the contract requirements, many of the contractors lacked the accounting systems to estimate the true cost of the services. This resulted in severe financial problems that pushed some agencies to the brink of bankruptcy (Martin, 2005). In this case, the contractors did not have the capacity to provide adequate service provision.

As a consequence of the financial challenges, SRS switched to the milestone approach to PBC.

Highlights of the Milestone Model

- Contractors are compensated at fixed rate for the accomplishment of specific milestones
- Contractors may incur loss if they do not meet milestones for a particular client
- Agency can control amount of risk by including a mix of performance milestones and non-performances (input and process), as well as varying the weight assigned

A case rate (based on average cost of care) was negotiated with contractors who received a proportion of that case rate, known as a progress payment, when they accomplished any of the 4 major milestones. In the case of Kansas, only one of the milestones was performance related, and the other milestones were essentially process measures. Agency performance on these measures determines whether or not contracts are renewed.

Example of Milestone Method:

Milestone	**Case Rate**
1. Child referred to contractor (process)	25%
2. 60 day report to state (process)	25%
3. 180 report to state (process)	25%
4. Child achieves permanent placement (outcome)	25%

Model #3: Wayne County, Michigan

Foster care providers participated in a pilot PBC initiative in 2000. The providers agreed to be paid a reduced administrative per diem rate along with an upfront initial per child payment and additional bonus payments when certain milestones were reached.

Example:

Initial payment	$ 2,210
Placement with parents, family members, guardian or IL within 270 days	$ 1,900
Sustained placement of 6 months	$ 1,290
Sustained placement of 12 months	$ 1,600
Termination of parental rights within 515 days	$ 1,900
Adoption within 7 months of Termination of Parental Rights (TPR)	$ 1,290

Model #4: Michigan "Outcome Reimbursement System" Method
Moderate Contractor Risk

Michigan has long been contracting out its adoption services, although historically performance measurements have been more process than outcome oriented. In 1992, it began a program that rewarded agencies with different payments based on the speed with which they made the placement. Under this model, providers are rewarded for achieving outcomes, or for unique recruitment efforts.

According to the Michigan DHS website, the reimbursement levels are as follows:

Residential Rate (placing a child for adoption directly from residential care within 120 days)	$10,000
MARE (Michigan Adoption Resource Exchange) Rate	$ 9,325
Five month premium rate	$ 8,660
Enhanced Rate (adopted within 7 months of TPR)	$ 6,520
Standard Rate (adopted within 7 months of wardship)	$ 4,160

Source: http://www.michigan.gov/dhs/0,1607,7-124-5452_7116-23480--,00.html

Model #5: Illinois Caseload Method
Major Contractor Risk
States with similar models: Philadelphia, Penn., Massachusetts

In response to the large numbers of children in out of home care in the early 1990s, the Illinois Department of Children and Families decided to implement performance based contracting for child permanency placements services, including reunification, adoption, and subsidized guardianship. The principle behind the Illinois approach was to improve child permanency outcomes by managing contractor caseloads.

In this model, agencies under PBC are required to accept a certain percentage of their caseload in new referrals, and move a percentage to permanency every year. If the agency exceeds case closure expectations, an agency could reduce caseloads without a loss in revenue.

Contractors that do not close the appropriate number of cases must continue to provide care and services without additional payment.

The following 3 examples illustrate the incentive structure:

Current Caseload	New Referrals	Case Closed	New Caseload
Ex 1 Baseline	24%	24%	Same
Ex 2 Baseline	24%	15%	Increase 9%
Ex 3 Baseline	24%	30%	Decrease 6%

Model #6: North Carolina Outcome Model
Major Contractor Risk

The state of North Carolina decided to implement the PBC outcome approach to adoption services in 1999. This type of model constitutes a major financial risk for providers since it ties compensation directly to the achievement of specific outcomes. The providers are paid percentages of an "average placement cost" at certain milestones. If they do not meet these outcomes, they will not receive compensation.

Example:

Outcome	Average Placement Cost
1. Child placed for adoption	60%
2. Adoption finalized	20%
3. Adoption intact for one year	20%

Impact of Performance Based Contracting

There is a lack of information available to date on the impact of PBCs on child welfare outcomes. Most of the findings in the literature are derived from state reports that use administrative data to present changes in caseload trends pre and post the implementation of PBC. In addition, there have been few independent evaluations conducted on this type of contracting.

It is important to keep in mind that due to the lack of rigorous evaluations conducted on PBC, it is difficult to isolate the impact of PBCs from other program initiatives and policies implemented at the same time. For example, subsidized guardianship was implemented in the state of Illinois in conjunction with PBC, thereby also influencing the number of children placed in relative care.

Florida Department of Children and Families

The following is a summary assessment of 516 performance based contracts awarded by the Florida DCF for substance abuse and mental health services.

- 80% of contractors meeting client specific performance standards
- 44% of contracts require corrective actions
- 61% of contracts have payment reductions
- 18 contracts extended for 6 months
- 3 contracts were terminated

Source: http://dcfdashboard.dcf.state.fl.us/

Wayne County, MI (Foster care services)

- Across all categories, private agencies exceeded agency contract expectations
- Average number of days from case acceptance to permanent placement for the 4 agencies was 133 days (contract requirement was 315 days)
- Average number of days from case acceptance to termination of parental rights was 272 days (contract limit was 600 days)
- Between April 1997- March 2001, 43% of children were reunified with a parent or 57% with relative. 83% were reunified within the required timeframe.
- Agencies freed 656 children for adoption, 81% within the required timeframe

Source: Freundlich and Gerstenzang, 2003.

North Carolina (Adoption services)

- In1993-94 the state completed 261 adoptions:
- In 1995-96, the number increased to 364 adoptions
- In 1996-97, increase to 631 adoptions
- In 1997-98, there were 603 adoptions
- In 1998-99, increase to 660 adoptions
- In 2001, increase to 1,338 adoptions

Source: Vinson, 1999.

Illinois Department of Children and Families

- Increase in adoptions from 2,229 (1997) to 4,293 (1998) to 7,315 (1999)
- Illinois caseload declined 65%, from 51,000 (1997) to 18,000 (2005)
- Increased children placed in relative care to 1,276 (1998) and 2,199 (1999) – also influenced by subsidized guardianship policy

Source: National Child Welfare Resource Center for Organizational Improvement, 2006.

Philadelphia, Penn- adopted the Illinois model in 2003

- Between 2002-2005, permanency rate increased by 84%
- Percentage of reentry into care within 365 days has declined
- Average length of stay in foster care decreased from 44 months in 7/2002 to 24 months in 7/2005
- Average length of stay in kinship care decreased from 33 to 27 months
- Increased communication and data sharing between agency and private providers]

Source: Rehl, 2006

Financial Incentives vs. Non Financial Incentives

The theory of PBC suggests that at least some risk for performance failure should be transferred from government contracting agencies to contractors in order to encourage the latter to focus more on performance. Studies find that it is critical that contracts align financial incentives and maintain a link between performance and payment to reinforce the importance of achieving outcomes over maintaining children in care. (McBeath and Meezan,2007).

In some models contracts simply call for the measurements to be reported on, with performance then tied to contract renewal rather than compensation. However, as Blasi (2002) points out, *performance failure often does not result in contract termination because the government and* *the provider tend to be interdependent*. It is difficult to terminate a contract for political reasons and also the high transaction costs (such as hiring and training new workers) to shift services. The area of human service contracts is plagued by a lack of competition and competent alternative organizations who can replace failed providers are often not available.

This point is illustrated in a 2004 report by Lamonthe on performance based contracting in Florida, where provider performance is not tied to payment of services. She found that poor performance by the providers did not seem to affect the fate of the contract and it was not uncommon that contracts were renewed regardless of performance. Lamonthe noted that this was due to lack of competition or interdependence between the agency and provider.

It is interesting to note that where the impetus for performance contracting came from outside the agency, such as Florida and Maine where it was mandated, payment for services was not directly linked to performance. In states such as NC and Illinois, where the impetus for PBC came from within the agency, the link between performance and payment was critical.

Design and Implementation of PBC

There were many critical success factors identified in the various articles and evaluations that deserve consideration in the design and implementation of PBC.

Define Success

- Performance goals should reflect and reinforce the agency's broader system objectives
- Contracts should be designed to address specific system deficiencies or inefficiencies
- Involve number of different stakeholders and organizations in planning effort

Selection of Performance Measures

- Performance indicators should be clearly measurable, fair, and reliable
- Define baseline (current performance level) and set level of expected performance

Collaboration with providers

- Involve providers in the establishment of performance indication and reporting procedures for better buy-in

Ensure capacity in providers

- Consider private agency qualifications and readiness
- Conduct feasibility study of current provider capacity

Staff and Contractor Training

- Clarify roles and responsibilities between private and public staff
- Adequate training on processes and procedures in advance of implementation

Internal Management Systems

- Good data system key to measuring and monitoring performance

Contract Monitoring

Effective contract monitoring is an essential component to PBC, yet it tends to be the area that is most challenging for child welfare agencies. The monitoring of contracts defines what actions the agency will take in order to ensure that the contractors are delivering the results required in the contract standards. Studies point out that it is critical that the monitoring plan be prepared well in advance of the contract agreement.

When implemented correctly, PBC can offer contractors more flexibility over the timing and amount of services delivered in order to achieve the desired outcomes. Since the focus should be on monitoring and evaluating the major outputs and outcomes, the amount of time and resources typically spent on monitoring the more routine tasks should be reduced.

It is important that the enforcement of penalties for not meeting standards be thoughtfully considered during the planning process. As was the case in Florida and possibly other states, the transaction costs associated with shifting services from one provider to another can be high and result in delays of services delivery. Agencies must be clear that they have the ability to enforce the consequences if providers fail to meet contract requirements.

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