REPORT TO THE GOVERNOR AND LEGISLATURE

CHILD WELFARE REINVESTMENT METHODOLOGY

Chapter 204, Section 2, Laws of 2012 (Substitute House Bill 2263)

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

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SUBSTITUTE HOUSE BILL 2263

Chapter 204, Laws of 2012

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CHILD WELFARE SYSTEM--REINVESTING SAVINGS

Section 2(3)(a)

The department of social and health services, in collaboration with the office of financial management and the caseload forecast council, shall develop a methodology for calculating the savings under this section. The methodology must be used for the 2013-2015 fiscal biennium, and for each biennium thereafter. The methodology must establish a baseline for calculating savings. In developing the methodology, the department of social and health services shall incorporate the relevant requirements of any demonstration waiver granted to the state under P.L. 112-34. The savings must be based on actual caseload and per capita expenditures. By December 1, 2012, the department of social and health services shall submit the proposed methodology to the governor and the appropriate committees of the legislature. The methodology is deemed approved unless the legislature enacts legislation to modify or reject the methodology.

EXECUTIVE SUMMARY

The 2012 Washington State Legislature passed Substitute House Bill 2263 (SHB 2263), creating the Child and Family Reinvestment Account (reinvestment account). This account can be used to support activities that (a) safely reduce entry or re-entry into the state's foster care system, (b) safely increase the reunification of children with their families, (c) achieve permanency for children unable to reunify with their families and (d) improve outcomes for youth who will age out of the foster care system. The primary source of account revenues will be savings that result from reductions in the state's foster care caseload and per capita costs.

As directed by SHB 2263, the Department of Social and Health Services, the Caseload Forecast Council and the Office of Financial Management assembled a workgroup to develop a methodology to calculate the amount of savings to be deposited into the reinvestment account. The methodology must:

- Incorporate the relevant requirements of any Title IV-E Child Welfare demonstration waiver;
- Establish a baseline for calculating savings; and
- Be based on actual caseload and per capita expenditures.

The workgroup identified key questions to guide the development of the methodology:

- Are there any requirements in the state's Title IV-E waiver that will influence the reinvestment methodology?
- Which types of foster care related expenditures should be included in the forecast methodology?
- Which state fiscal year should be used as the baseline and what data source will determine the baseline year expenditures?
- Should the baseline be static or periodically rebased?
- Should the baseline be adjusted to reflect policy changes and population growth trends?

The workgroup made the following recommendations:

- The provisions of the Title IV-E waiver do not affect decisions on the proposed methodology, but consistent with legislative intent, allowable expenditures for the reinvestment account would include those eligible under the Title IV-E waiver, including but not limited to those that provide in-home services and support to families to help reduce entries and expedite exits from out-of-home care;
- The methodology should include only those foster care maintenance expenditures which are specified in the official child welfare caseload and per capita forecasts;
- The baseline for estimating the savings to be deposited to the reinvestment account is the foster care general fund expenditures for state fiscal year 2012, which will remain constant for the five year period the legislation is in effect; and

- The baseline will be adjusted for future policy changes but will not be adjusted for population growth.

In September 2012, the State of Washington was awarded a Title IV-E waiver, providing the state with the flexibility to use Title IV-E federal dollars to support child welfare activities that are otherwise ineligible for Title IV-E funding. The state will only be able to spend the full waivered federal allotment if it spends an equal amount of state funds which is consistent with federal requirements for the state to continue to provide its share of matching funds. State funding can be either state general funds or reinvestment account funds. To fully maximize the amount of Title IV-E available to the state, the workgroup recommends using the reinvestment account to support only those expenditures allowable under the Title IV-E demonstration waiver, including child welfare activities eligible for both Title IV-E and Title IV-B reimbursement.

BACKGROUND

The 2012 Washington State Legislature passed Substitute House Bill 2263 (SHB 2263), *Reinvesting savings resulting from changes in the child welfare system.* This bill creates the Child and Family Reinvestment Account which will be referred to as the reinvestment account in this report. This account may only be used to support activities that (a) safely reduce entry or re-entry into the state's foster care system, (b) safely increase the reunification of children with their families, (c) achieve permanency for children unable to reunify with their families and (d) improve outcomes for youth who will age out of the foster care system. Reinvestment account revenues will primarily come from general fund savings that result from reductions in the state's foster care caseload and per capita costs. Revenues may also come from public or private funds that are raised for the account.

SHB 2263 instructs the Department of Social and Health Services (DSHS), the Caseload Forecast Council (CFC) and the Office of Financial Management (OFM) to "develop a methodology for calculating the savings" that would be redirected to the reinvestment account. This methodology must:

- Incorporate the relevant requirements of any Title IV-E demonstration waiver;
- Establish a baseline for calculating savings;
- Be based on actual caseload and per capita expenditures; and
- Be submitted to the Governor and the appropriate committees of Legislature by December 1, 2012.

Title IV-E of the Social Security Act established a federal program that subsidizes state costs to support foster care, adoption assistance, administration, and other services that prepare youth about to leave foster care; for children who meet the Title IV-E eligibility set forth by the federal government. It is an uncapped entitlement program; the amount of federal funding provided to the state under Title IV-E fluctuates with foster care caseloads and per capita costs. Title IV-E funding cannot be used to provide in-home child welfare services to prevent out-of-home foster care placements or to provide support services to a family after they have been reunified with their child.

In September 2011, the federal Child and Family Services Improvement and Innovation Act (H.R. 2883) was passed. This act authorizes the Secretary of Health and Human Services to approve up to ten new Title IV-E child welfare demonstration projects per year for three years. These federal waivers allow states to retain Title IV-E savings that result from caseload and per capita cost reductions in foster care. The states can then use these savings to reinvest in child welfare activities that prevent out-of-home foster care placements. Without a waiver, the states cannot use Title IV-E funding for preventive child welfare services.

On September 28, 2012, Washington State was awarded a Title IV-E waiver for federal fiscal years 2013 to 2017. During this five year period, it will retain the same level of Title IV-E funding regardless of changes in foster care caseloads and per capita costs. The terms of the waiver allow

Title IV-E funds to be used for in-home services to reduce out-of-home placements.

Current Funding Model for Forecasted Foster Care Expenditures

Currently, state appropriations to support foster care services are increased or reduced depending on the forecasted caseload approved by the CFC. This appropriation is calculated by multiplying the forecasted foster care caseload by a foster care per capita cost. The per capita cost is based on the actual monthly foster care expenditures divided by actual monthly caseload.

Average Monthly Forecasted Caseload X **Average Monthly Per Capita Cost** = **Average Monthly Expenditures** X **12 Months** = **Total Forecasted Appropriation**

The amount of funding appropriated fluctuates based on increases or decreases in the forecasted caseload and per capita costs. In the past, when DSHS was successful in reducing foster care costs through prevention and intervention programs or other efficiencies, the savings were not available to reinvest in preventive child welfare programs.

RECOMMENDING A REINVESTMENT METHODOLOGY

The Department of Social and Health Services, the Office of Financial Management and the Caseload Forecast Council formed a workgroup to identify methodology options for this report.

The workgroup identified several questions that would need to be answered to develop a reinvestment methodology.

What provisions of the Title IV-E demonstration waiver must be reflected in the recommended reinvestment methodology?

Washington's approved Title IV-E demonstration waiver will implement the Family Assessment Response (FAR) program statewide, as authorized by Engrossed Substitute Senate Bill 6555 (ESSB 6555), *Implementing provisions relating to child protection*. FAR allows the state to address allegations of mild to moderate child maltreatment by providing services and goods to support and stabilize families, while preserving full investigatory activities to more severe abuse and neglect cases. Through the use of FAR, foster care caseloads are likely to decrease, creating future savings that can be reinvested into further preventive child welfare activities.

The state's Title IV-E waiver caps federal funding for foster care and administration at $411.9 million over federal fiscal years 2013 to 2017. The waiver allows flexibility to use Title IV-E funding to cover FAR expenditures that otherwise would not be eligible for Title IV-E reimbursement. The cap provides Washington with sufficient federal authority to cover unanticipated caseload increases. To earn the full amount of federal reimbursement allowed, the state must spend an equal amount of state funds. State funding can be either state general funds or reinvestment account funds.

<u>Recommendation</u>
The workgroup did not identify any requirements in the Title IV-E waiver that would alter the state's proposed child welfare reinvestment methodology. In order to maximize matching funds for the waiver, the workgroup recommends that the use of the reinvestment account be limited to services included under the Title IV-E waiver or to meet Title IV-B maintenance of effort requirements if services previously funded as state only programs begin to receive federal funds under the waiver.

Which types of foster care related expenditures should be included in the methodology?

There are two categories of funding that support foster care services: foster care maintenance and foster care administration.

<u>Foster Care Maintenance</u>
Foster care maintenance funding covers maintenance payments to foster parents, fees to child placement agencies, support goods and services, as well as child care and supervision for children with unique behavioral and developmental needs.

<u>Foster Care Administration</u>
Foster care administration funding pays for foster care staffing and direct foster care services such as transportation, supervised visits, mental health evaluation and treatment and pediatric interim care. The state does not adjust the funding for these services without an associated policy change that impacts the cost of such activities. These costs are not projected in the February caseload and per capita forecasts.

In selecting which costs to include in the methodology, the workgroup considered the following options:

(1) Only include foster care maintenance costs; or
(2) Include foster care maintenance and administration costs.

Each year, the state routinely includes a "mandatory caseload adjustment" in the enacted budget to adjust DSHS funding to support the projected changes in foster care maintenance costs based on the February caseload and per capita forecasts. Foster care administration costs, however, are not forecasted and the state currently does not make routine appropriation adjustments for administration costs.

<u>Recommendation</u>
The methodology should include foster care maintenance costs but not include foster care administration costs, since foster care administration services are not forecasted.

Which fiscal year should be established as the baseline year and what data will be used to establish the baseline?

While any year could have theoretically been selected as the baseline year, the workgroup limited its discussion to recent fiscal years which reflect current caseload and per capita trends. Average monthly foster care caseloads have dropped over 21 percent from 11,949 children in state fiscal year 2008 to 9,431 in state fiscal year 2012.[1] Therefore, selecting earlier fiscal years would create a baseline that is higher than current foster care expenditures levels, requiring that new General Fund-State dollars transfer to the reinvestment account. In other words, the further back in time one sets the baseline, the larger the initial 'reinvestment.'

The workgroup limited its selection to the two most recent fiscal years:

(1) State fiscal year 2011; or
(2) State fiscal year 2012.

Recommendation
State fiscal year 2012 expenditures should be used as the baseline as it reflects the most recent completed fiscal year. The state spent a total of $61.9 million ($32.5 million General Fund-State) in foster care maintenance services in fiscal year 2012.

Should the baseline be adjusted periodically? If so, how frequently?

The workgroup considered including periodic adjustments to the baseline. Three types of possible baseline adjustments were discussed:

(1) Rebasing

The process of rebasing allows the state to periodically adjust the baseline to reflect more current expenditure data. The workgroup considered rebasing the baseline annually or biennially based on the expenditures of previous fiscal years. Another option was to keep the baseline static (no rebasing).

Recommendation
The baseline should remain constant and not be rebased for the entire period that SHB 2263 is in effect. The workgroup recognized that a static baseline would likely yield higher reinvestment savings since foster care caseloads and per capita costs are currently forecasted to decline. A static baseline would be easier to understand and implement. This selection also more closely mirrors the capped five-year allotment provided by the federal government under the terms of the Title IV-E waiver.

[1] November 2012 Foster Care Caseload Forecast. Includes licensed and unlicensed foster care populations.

(2) Policy Changes

The workgroup considered including a process to adjust the baseline for future legislative policy changes. Future changes in foster care payment rates or services may decrease or increase foster care expenditures, which may alter the reinvestment savings calculations.

Adjusting the baseline to reflect how such policy changes would have impacted expenditures in the baseline year removes the impact that such decisions would have on future reinvestment savings calculations. Choosing not to include this type of adjustment would mean that cost increases resulting from policy changes will reduce reinvestment savings. Conversely, any cost savings will increase reinvestment savings.

Recommendation

For the purposes of the reinvestment maintenance level step, the state should adjust the baseline up or down to reflect legislative policy decisions that affect foster care costs. Actions to either lower or raise the cap to limit the impact on state funding can be made as a policy level step.

(3) Annual Growth Factor

The workgroup discussed the application of an annual growth factor to the baseline. Washington state's population grew from 5.9 million to 6.8 million residents between calendar years 2000 to 2011. [2] This represents a 1.3 percent average annual increase. Despite the growth in Washington's population, foster care caseloads have decreased for three consecutive years.

The workgroup considered the following:

(1) The baseline will not be adjusted to reflect state population changes;
(2) The baseline will be adjusted to reflect state population changes using the average annual growth rate from recent years.

Recommendation

The methodology should not adjust the baseline for anticipated population growth. The correlation between the state population and the foster care caseload is unclear. In the last few years, even though the state population has grown, the foster care caseload has decreased.

[2] Office of Financial Management, 2011 Population Trends. (Olympia, 2011), 5. Available online at http://www.ofm.wa.gov/pop/april1/poptrends.pdf.

IMPLEMENTATION OF THE PROPOSED REINVESTMENT METHODOLOGY

In summary, the recommended reinvestment methodology will use the state fiscal year 2012 actual foster care maintenance expenditures as a baseline. This baseline will remain constant for a five year period, but will be adjusted for policy changes that reduce foster care expenditures.

The Budget and Transfer Process

In the fall of 2012, the amount of general fund state dollars that will be transferred to the reinvestment account will be calculated by comparing the November 2012 caseload forecast for fiscal years 2013 and 2014 to the fiscal year 2012 baseline. The Governor's proposed 2013-2015 Biennium budget will include a transfer to the reinvestment account and may include an appropriation from this account.

Fiscal Year	GF-State Expenditures
2012 (Baseline)*	$32,469,000
2013 (Forecasted)	$28,711,000
2014 (Forecasted)	$30,514,000

* *Source: Agency Financial Reporting System (AFRS)*

Maximum Amount Available for Appropriation in the Governor's Proposed 2013-2015 Biennium Budget

2014	2015
$3,758,000	$1,955,000

These estimates would be refined using the February 2013 foster care caseload forecast and included in the enacted budget.

The deposit of general fund state into the reinvestment account should be made in two payments. The initial deposit will be equal to half of the estimated amount and will be deposited before July 1, 2013. The second amount will be specified by DSHS and reported to OFM and the fiscal committees of the Legislature after fiscal year 2013 close. Funds will be adjusted and transferred upon fiscal year close. The appropriations from the Reinvestment Account will also be adjusted in the 2014 supplemental budget to reflect the actual amount deposited in the account.

The Governor's proposed 2014 Supplemental budget will also include an adjustment to the reinvestment account appropriation for fiscal year 2015. This adjustment will be calculated by comparing the November 2013 caseload forecast for fiscal year 2014 to the fiscal year 2012 baseline. Again, these estimates would be refined using the February 2014 foster care caseload forecast and the half of the estimated amount will be deposited to the reinvestment account before July 1, 2014 and reconciled once fiscal year 2014 closes in October 2014.

NEXT STEPS

The recommended reinvestment methodology meets the requirements of SHB 2263 will not conflict with the provisions of a Title IV-E demonstration waiver. The current caseload and per capita forecast process would remain the same; the Caseload Forecast Council and the Forecast Division of the Office of Financial Management will not need to alter its forecasting processes to accommodate the recommended reinvestment methodology.

Title IV-E Waiver

Since the state must continue to meet its match requirement by committing an equal amount of state funds to use the entire Title IV-E allotment, it is vital that funds from the reinvestment account are used in a manner that is consistent with the allowable expenditures authorized under the waiver. The workgroup recommends that the state maximize its use of Title IV-E funding by focusing the purpose of the reinvestment account to fund services and activities that are Title IV-E eligible under the waiver (as directed in SHB 2263).

Reserves

Since reinvestment savings are based on future foster care expenditure levels, there is no guarantee that there will be an infusion of new revenue into the reinvestment account each year. The state decision makers must be aware of how any child welfare program that is funded with the reinvestment account bow waves into future fiscal years. If there is insufficient reinvestment account funding to support the program in future years, the program must be cut, reduced, or funded from the state general fund.

One method of mitigating this risk would be to establish a reserve where a portion of the reinvestment account balance is left unappropriated. The workgroup does not have a recommendation on the amount of reserve that should be maintained.