



Performance-Based Contracting in Tennessee's Foster Care System

- **The Challenge:** Promote system reforms that improve outcomes for children and families and strengthen public/private partnerships.
- **The Strategy:** Devise a performance-based contract that aligns payment with the achievement of outcomes.
- **The Implementation:** July 2006—Pilot with five voluntary service providers; July 2009—All contractors enrolled Tennessee's pay-for-success model.
- **The Results:** Over 5 years, Tennessee's foster care providers lowered the utilization of foster care by 235,000 days and generated nearly \$20 million for reinvestment in service improvements.

The Challenge:

Throughout most of its history, Tennessee contracted with private providers of foster care services using a basic fee-for-service payment as the primary reimbursement mechanism. Although fee-for-service systems work well in some instances, over time, paying providers to deliver a service rather than paying them to achieve permanency for children creates incentives that work against doing a better job for children and families. More pointedly, for agencies determined to get better at delivering services that impact lives, their revenue is adversely and directly affected by how well they accomplish their goals. It is a simple formula: get better and lose the revenue needed to sustain quality programs.

That was the problem Tennessee's Department of Children Services was facing in mid-2005 when the Department's leadership began to look at whether alternative payment mechanisms might reverse the existing incentive structure. Building on its own work a decade earlier, the Department looked hard at the link between investments in services and investments in outcomes and decided to build a prospective payment system that paid agencies for success.

The Strategy:

Working with staff from the Center for State Foster Care and Adoption Data, Tennessee developed a performance contract that offered providers a new deal—if the provider was able to achieve permanency for children at a rate demonstrably better than its own past performance, the state would preserve for the provider a portion of the funds the provider would have otherwise lost under the old way of doing business.

With the new contract, each provider has a baseline and a target. The baseline reflects what is known about the providers past performance; the target is a simple statement that defines what *better* looks like. Targets and baselines were developed for a set of primary outcomes—permanency and reentry. To allow for differences in the service populations, each provider's baseline and targets were risk adjusted using child characteristics related to age and time spent in foster care. For providers able to reach their targets, the Department offered a modest but important return on the provider's investment in doing better work.

The new contracts also shifted risk from the Department to the provider. Generally, per diem mechanisms have weak, poorly specified risk sharing mechanisms. In Tennessee, to bolster the incentives that reward better outcomes, the Department also introduced explicit risks to cover those



instances when, relative to their baseline, provider performance slipped. In short, the strategy involved both carrots and sticks.

The Implementation:

State Data Center worked hand in hand with the Department's fiscal and program leadership. Using the state's electronic SACWIS records, Center staff devised a unique, high-performance data system for tracking outcomes, establishing baselines, and setting targets. Among that system's unique features, the ability to track children into and out of provider agencies was the breakthrough that allowed leadership to sit with individual providers and ask: How can the Department work with your agency to improve outcomes for the children and families you serve?

At the same time, Department leadership embarked on a series of discussions with the state's private providers to explain the pending culture shift. Specifically, the Department was going to step up its focus on permanency, making concerted efforts, both through policy and frontline practice, to keep children at home when it was safe to do so, place them with families when out-of-home care was necessary, and support timely permanency through reunification, adoption, and guardianship. The leadership made it clear that the new pay-for-success contracting mechanism was designed to support the providers financially as they adapted to the Department's renewed focus on serving children within their own families and communities.

In July 2006, DCS launched its new PBC initiative with five providers, selected on the basis of their response to an RFP. By July 2009, all of the Department's contracted agencies were working under the PBC protocol.

The Results:

After the first three years, when their performance was compared to their baselines, the five original providers had achieved an eight percent reduction in care days (over 100,000 care days) and a six percent increase in permanent exits. That means 167 more children than expected were placed in with a family outside the foster care system. To make sure the decision to move a child to a family was the right one, the Department also kept track of whether children returned to care. Over the five years the program has been operating, no increase in reentry has been observed.

From the program's inception through the most current fiscal year, Tennessee's foster care population used 235,000 fewer care days, which represents \$20 million or roughly 5 percent of total outlays that Tennessee's providers were able to re-purpose.