Performance-Based Contracting in Tennessee's Foster Care System

Background

Throughout most of its history, the State of Tennessee contracted with private foster care service providers 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 disincentives to improving outcomes for children and families. Specifically, private agencies' revenue is directly and adversely affected by how well they accomplish their goals. The formula is simple: as agencies reduce the time to permanency, the less service they provide; the less service they provide, the more they lose revenue needed to sustain quality programs.

That was the problem Tennessee's Department of Children's Services (DCS) was facing in mid-2005 when its leadership began to consider whether alternative payment mechanisms might reverse the existing incentive structure. DCS wanted to reduce its reliance on out-of-home care and particularly congregate care; toward that end, it was interested in being more selective in its efforts to purchase the highest quality services from private agencies. To meet that goal, DCS brought in researchers from Chapin Hall's Center for State Child Welfare Data to help them set up the analytic infrastructure needed to measure agency performance and design and implement a performance-based contract (PBC).

Developing the performance-based contract

At its core, Tennessee's PBC had to accomplish three main things. First, it had to enable the Department to **observe variation** in provider performance; i.e., compare private agencies to one another. Second, it had to provide DCS with the analytic capacity to **monitor provider performance** over time. Third, it had to **change the reimbursement system** to one that linked payment to performance indicators and incentivized agencies to improve permanency outcomes for children in care.

Observing variation: Risk-adjusted analysis of longitudinal data

The bedrock of Tennessee's PBC is a longitudinal database, developed and maintained by the Center for State Child Welfare Data, that contains the foster care trajectories of all children placed in out-of-home care. This file supports a variety of DCS's management initiatives. Among other things, it enables the Department to measure foster care outcomes at the private provider level.

Because not all providers achieve permanency for children at the same rate, analytic work for PBC begins by calculating a series of multivariate models that generate a relative agency-to-agency comparison, a process known as risk-adjustment. This approach reveals variation in provider performance while controlling for child characteristics (i.e., the case mix idiosyncratic to each agency). In other words, the model "levels the playing field" by accounting for the fact that individual providers serve children with different types of needs. As a result, remaining differences in performance can be attributed to the providers themselves, allowing for a fair comparison.

In Tennessee, this analysis clarified that the members of the provider network were not equal in their achievement of permanency. That variation was a signal to the Department that there was room for improvement among many of its contractors. At that point, the between-provider comparison stopped. Moving forward, agencies would be called on to improve against their own historical performance, not to reach a target based on the performance of others.

Monitoring provider performance over time: The Baseline-Target-Actual report

The next phase of PBC development was to introduce the Baseline-Target-Actual method (BTA) to measure change in agency performance over time. For each agency, BTA algorithms produce a provider-specific, risk-adjusted baseline based on the provider's own historical performance. In the case of Tennessee's PBC, the Department chose to establish baselines in three priority domains: exits to permanency, care days used (i.e., length of stay), and rate of re-entry to care. Baseline performance on these outcomes was set using the provider's performance during the two fiscal years immediately preceding the initiatives' start; in this way, baselines would reflect the most recent changes in the volume and mix of children coming into care. Each agency also received its own target meant to reflect a degree of improvement.

Importantly, baselines and targets were stratified along two main dimensions to reflect different expectations for subpopulations of children known to have distinct pathways through the system. First, separate baselines/targets were established for the in-care and admissions populations. This method reflects the fact that we would not expect PBC to have the same effect on permanency for new entrants (admissions) as we would for those who had already spent some time in care when the new policy went into effect (in-care). Second, for both the in-care and admissions groups, baselines/targets were set based on child age at spell start, adjudication type, and in the case of the in-care population, the amount of time already spent in foster care as of the first day of PBC. Exit from care was defined as the point at which the child had both exited state custody and was no longer receiving services from the provider agency.

Changing the reimbursement system: Fiscal incentives

Finally, Tennessee's PBC involved a financial component, shifting payments from a fee-for-service model to one that paid providers to achieve desired permanency outcomes. Multiplying the reimbursement rates by the care day usage captured in the longitudinal database allowed DCS to calculate the dollars providers saved when they reduced length of stay for children in care.

As noted above, under the traditional fee-for-service contracts, reductions in care days would result in savings for the state but reduced revenue for the provider. Therefore, the Department had to find a way to ensure that private agencies continued to receive the revenue needed to provide high-quality care. The solution was as follows: When providers exceeded their baseline performance (per the BTA), the PBC offered to return a portion of those savings to the provider for reinvestment; in fact the Department was prepared to return earned reinvestment funds up to 110 percent of the state savings the providers generated under the PBC initiative. While the intent was for the providers to use reinvested funds to develop and maintain programs facilitating timely permanency, DCS did not restrict how the providers could use the reward. Providers performing below their baselines were penalized for the cost of the overage.

To allow providers time to adjust to the new regime, DCS established the first year of the initiative as penalty-free year. Additionally, the providers were permitted to "bank" care days from one fiscal year into the next by permitting agencies to roll over care days unused in year 1 into year 2. This adjustment effectively raised the ceiling on available days, making it likely for the provider to use fewer days than allocated and thus generate savings translating into reinvestment rewards in the subsequent year.

Implementation

Once designed, the Data Center worked hand in hand with DCS's fiscal and program leadership to implement PBC. To start, the Departments' newly developed capacity to track children in and out of contract agencies was a 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 providers to explain the pending culture shift. DCS made clear that it 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 PBC 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.

Results and ongoing work

After the first three years, when their performance was compared to their baselines, the five pilot providers achieved an eight percent reduction in care days (over 100,000 care days) and a six percent increase in permanent exits. Moreover, no increase in reentry was observed. After the first five years, Tennessee's foster care population used 235,000 fewer care days than expected, representing a $20 million cost savings (roughly 5 percent of the state's total outlays), which Tennessee's providers were able to re-purpose. As more providers were added to the PBC, those numbers increased.

Since then, Tennessee's PBC has undergone some revisions, and is continuing to adapt the model to match the changing context in which Tennessee's provider network operates. As more contract agencies joined the network, including smaller providers, and as the provider network showed improvement on outcomes that affected recalculation of the baselines, the risk environment shifted. Tennessee leadership remains committed to the core elements of the approach – relying on BTAs to establish and monitor the three performance goals, and to maintain fiscal incentives for performance improvement.