

Group Homes-Performance-based Incentives Rates Report

**Report to the Senate Budget and Taxation Committee
And the House Appropriations Committee**

October 31, 2006

Submitted by

The Governor's Office for Children on behalf of the Children's Cabinet

Pursuant to 2006 JCR Page 231-232
SB 110/Ch. 216, Sec. 44, 2006

Response to Joint Chairman's Report – 2006 Session

Section 44 of The Joint Chairman's Report states:

Section 44 Group Homes – Performance-based Incentives - Rates:

- 1) The Department of Human Resources, the Department of Juvenile Services, and the Interagency Rates Committee in the Maryland State Department of Education submit a report to the budget committees by October 1, 2006, providing a methodology for fiscal 2008 rates set by the Interagency Rates Committee to incorporate performance-based incentives based upon outcomes appropriate for each department; and
- 2) The budget committees have reviewed and commented on the report or 45 days have elapsed from the date the committees received the report.

It is the intent of the General Assembly that the departments should utilize performance-based contracts for all out-of-home placements that utilize rates set by the Interagency Rates Committee.

Explanation: Current rate-setting methodology does not incorporate any element related to vendor performance. This language restricts funding in the budgets of the Department of Human Resources (DHR), the Maryland State Department of Education (MSDE), and the Department of Juvenile Services (DJS) until those agencies provide a report to the budget committees detailing a methodology to incorporate performance-based incentives into the rate-setting process. The language also expresses legislative intent that such incentives be built into rates beginning in fiscal 2008.

Background on the Interagency Rates Committee

The Interagency Rates Committee (IRC) is comprised of representatives from the Department of Budget and Management, Department of Health and Mental Hygiene Administration/Mental Hygiene Administration, Department of Human Resources/Social Services Administration, Department of Juvenile Services, Governor's Office for Children and the Maryland State Department of Education. The IRC is charged with developing and operating a rate process for residential child care programs that is fair, equitable and predictable. The IRC has developed and adopted a rate methodology that can be applied equitably across a broad range of residential child care programs based on peer program comparisons.

Status of Performance-Based Rate Setting

Due to the current absence of performance based measures, the IRC process utilizes a program specific "intensity score" as a proxy measure.

The IRC has developed a performance-based rate process which will be implemented when a system for outcomes evaluation is operational as directed by HB 1146 (2004 Session). The IRC will work with the Governor's Office of Children and the State licensing agencies to incorporate measured program outcomes into the rate system.

The performance-based rate process will enable programs with higher levels of performance to have greater flexibility in requesting and receiving rates.

Current IRC Rate Process

- 1) Program budgets are grouped by program type categories. Program type categories are groupings of programs that serve similar populations and have similar services, i.e. group homes, shelter care, treatment foster care, independent living programs, etc. Program type groupings are used to conduct peer program comparisons for rate setting.
- 2) All programs have an intensity score. The intensity score is a measure of the extent and intensity of services provided to children placed in a program. Programs that serve children with greater needs have higher intensity scores than programs that serve children with lesser needs. The provider self rates the program's intensity score. The program's licensing agency reviews and approves the intensity rating. If the licensing agency disagrees with the provider's self-rating, the licensing agency and the provider confer to arrive at a final intensity rate.
- 3) Budget requests are reviewed by MSDE Rate staff for completeness and reasonableness. If necessary, MSDE Rate staff will contact a provider to advise that certain budget/line items are excessive compared to other programs. In order to maintain the confidentiality of proprietary budgetary information, providers are never told the names or actual budget amounts of other providers. Final budget adjustments are made by the provider if necessary.
- 4) Each program's budget is compared to the mean of the final budgets of all other providers in the same program type category.
- 5) Each program's intensity score is compared to the mean intensity score of all other providers in the same program type category.
- 6) Programs are assigned a designation of "preferred provider" or "non-preferred provider" based on a comparison of the program's budget and intensity scores.
- 7) The Interagency Rates Committee applies a set of rules, the Rate Setting Methodology, to each program to determine the final rate. The rules include, in part, a program's preferred/non-preferred status, the relation of the requested rate of an individual program to the mean requested rate for all programs in the program type category.

Development of Rate Methodology Incorporating Performance-based Incentives

The IRC conducted a series of meetings to evaluate approaches to and parameters for a performance based rate setting process.

The IRC has developed a Rate Setting Process that incorporates Performance Based Incentives. The Performance Based process utilizes the following elements:

- 1) All programs will have new levels of intensity (LOI) assigned for FY 2008. Each program's LOI will be determined in accordance with the *Levels of Intensity Revision Project* developed by the Resource Development and Licensing Committee on behalf of the Children's Cabinet. The new LOI will be part of each programs FY 2008 IRC rate request.
- 2) The revised LOI's will enable the IRC to prepare more representative program type categories. Group Homes serving children with more intensive needs will be compared to programs with similar populations and services. Likewise, programs serving children with lesser needs will be grouped together. These modified groupings will be used to establish a more accurate comparison of similar programs by grouping them in clusters. The LOI will not be used to directly determine preferred or non-preferred status.

The IRC recognizes the importance of the consistent application of the revised LOI methodology as a key element in accurately grouping programs. To this end the Governor's Office for Children and the State licensing agencies will conduct training for both providers and licensing agency staff.

- 3) Within the new LOI defined program groupings, each program's budget is compared to the mean of the budgets of all other providers in the same program type category.
- 4) State licensing/monitoring agencies assign a performance-based score to each program using a numeric or non-numeric score.
- 5) The IRC process will utilize the program specific performance-based score and the program type category budget comparisons to determine each program's "preferred provider" or "non-preferred provider" status.
 - a. Programs that do not meet a minimum level of performance are non-preferred.
 - b. Based on the extent to which they exceed the minimum level of performance, the preferred programs will be able to receive rates that exceed the mean rates for the program type category.

The Governor's Office for Children and other State agencies are working towards developing an outcome evaluation system as directed by HB 1146. The IRC will work with these agencies to define performance-based scores in a format that will be incorporated in the IRC rate process. However, until actual performance-based data is available, showing the range and distribution of program performance, the IRC is unable to determine the specific points at which preferred programs will be evaluated.

Next Steps

The IRC will continue to work on the implementation of the performance-based rate process.

- 1) Implement the revised levels of intensity into the current rate process for FY 2008
- 2) Work with HB 1146 group to be prepared to incorporate performance-based results when available.
- 3) Develop the mechanism to determine the relationship between the performance-based score and the deviation from the mean rate that triggers the preferred/non-preferred status.

Attachments

Attachment 1 – IRC Rate Methodology for FY 2007

Attachment 2 – IRC Membership

Attachment 3 - Workgroup meetings and attendees

Attachment 4 - Performance-based Rate Process adopted by the IRC
August 17, 2006

Attachment 1 - IRC Rate Methodology for FY 2007

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**Interagency Rates Committee
Rate Setting Methodology - Fiscal Year 2007**

June 2006

Rate Categories

1. A new or existing program that received a rate during FY 2006:
 - A new or existing program that was issued a rate for the balance of FY 2006 and all of FY 2007. The rate issued in FY 2006 will be effective through the end of FY 2007.
2. Program that requested a rate increase equal to or less than the Consumer Price Index CPI:
 - A program that requested a rate increase, over the approved FY 2006 rate, that was equal to or less than the CPI-U for Calendar Year 2005 (3.4 %) was issued the requested rate. The increase was not granted for a non-preferred provider, a program that did not file a FY 2007 budget or that had calculated the FY 2007 budget at less than 90% occupancy (less than 85% for Shelter programs).
3. Non-preferred provider:
 - The referenced program is a non-preferred provider in comparison to programs of the same type. The calculation methodology for preferred vs. nonpreferred status is the same as previous years. A nonpreferred provider was held at the approved FY 2006 rate.
4. Program that requested a rate based on an occupancy of less than 90%:
 - A program that did not calculate it's budget at 90% occupancy or higher (85% or higher for Shelter programs), or that calculated the budget based on a projected census lower than the actual FY 2006 census. The program is held at the approved FY 2006 rate. The program may resubmit a budget calculated at 90% or higher occupancy (85% or higher for Shelter programs).

5. Program required to make changes or modifications as directed by a licensing agency or a program that has had proposed changes approved by a licensing agency:

- A program required to make staffing changes or physical plant modifications to correct deficiencies noted by the program's licensing agency or to maintain licensed status. The program received a rate adjustment to cover the required changes if it has been demonstrated that no other alternatives exist to meet licensing requirements.

6. Reserved for Future Use

7. Preferred provider not in another category:

- A program that is a preferred provider and is not in one of the other categories received a rate as follows:
 - A. If a program's FY 2007 request is at or below the mean proposed FY 2007 rate for the program type category, the FY 2007 request was approved in full.
 - B. If a program's FY 2007 request is above the mean proposed FY 2007 rate for the program type category, the FY 2007 rate is set at the program's approved FY 2006 rate plus 3.4 % (CPI for C.Y. 2005).

8. A program held to the FY 2006 rate for other reasons:

- A program may be held to the FY 2006 rate for the following reasons:

A program that filed the FY 2007 budget request after the published filing deadline.

A program that is under a corrective action order. The program budget will be re-reviewed when the licensing agency has approved the program's corrective action plan.

A program that filed for a budget for a modified program, including a budget based on a greater number of beds than currently licensed. The FY 2006 rate is assigned pending completion of the proposed modification.

A program that filed an incomplete budget and did not respond adequately to staff questions for clarification.

A program in the process of being closed.

9. A program that will receive no rate:

- A program will not receive a rate for the following reasons:

A program that does not have a valid license to operate.

A program that failed to file a budget for the fiscal year under review.

Attachment 2 – IRC Membership

Interagency Rates Committee – Performance-based Incentives

Attachment 2 – IRC Membership

Marcia Andersen – Department of Health and Mental Hygiene – Mental Health Administration

Carmen Brown – Department of Human Resources – Social Services Administration

Margaret Hughes – Department of Human Resources

Mary Louise Orth – Department of Juvenile Services

Margo Wilson – Department of Juvenile Services

Shelly Tinney – Governor’s Office for Children

Scott Finkelsen – Governor’s Office for Children

Marc Nicole – Department of Budget and Management

Clarke Williams – Department of Budget and Management

Paul Sambuco – Maryland State Department of Education

Steven Sorin – Maryland State Department of Education – Chair

Attachment 3 – Workgroup meetings and attendees

Interagency Rates Committee – Performance-based Incentives

Attachment 3 – Workgroup meetings and attendees

The following persons attended one or more of the IRC and Workgroup meetings:

Marcia Andersen – IRC – Department of Health and Mental Hygiene

Carmen Brown – IRC – Department of Human Resources

Maisha Davis – MARFY

Scott Finkelsen – IRC - Governor’s Office for Children

James McComb – MARFY

Paul Sambuco - IRC – Maryland State Department of Education

Shelly Tinney –IRC - Governor’s Office for Children

Clarke Williams –IRC - Department of Budget and Management

Margo Wilson –IRC - Department of Juvenile Services

Nancy Boone – MSDE – Staff

Roslyn Hodnett – MSDE – Staff

Steven Sorin – MSDE – Staff and Chair

Meeting conducted on:

IRC meeting July 20, 2006

IRC Workgroup meeting July 27, 2006

IRC meeting August 17, 2006

**Attachment 4 - Performance-based Rate Process adopted by the IRC
August 17, 2006**

Interagency Rates Committee – Performance-based Incentives

Attachment 4 - Performance-based Rate Process adopted by the IRC August 17, 2006

The process is based on the IRC defined “program rate categories”. Program rate categories are groupings of programs that serve clients with similar behavioral needs and have similar support structures. Individual programs are assigned to program rate categories through the programmatic expertise of the IRC members.

IRC Rate Setting Process with Performance Based Incentives

Step 1:

All programs will have new levels of intensity (LOI) assigned for FY 2008. Each program’s LOI will be determined in accordance with the *Levels of Intensity Revision Project* developed by the Resource Development and Licensing Committee on behalf of the Children’s Cabinet. The new LOI will be part of each programs FY 2008 IRC rate request.

Step 2:

All the programs within the Group Home program rate category will be arrayed by aggregate LOI score. The Group Home category will be divided into a number of subcategories (clusters) by LOI score. The current method, using the old, “one size fits all” LOI score compares all Group Homes in one set. The new Step 2, combined with the new LOI will result in more accurate aggregation of similar programs within a program rate category.

The LOI will be used to establish a more accurate comparison of similar programs by grouping them in clusters. The LOI will not be used to directly determine preferred or non-preferred status.

Step 3:

The program requested rates for all programs within a cluster will be used to calculate the average requested rate and the standard deviation of the requested rates. With the exception that the calculations are preformed on clusters rather than the entire program rate category, this is unchanged from current practice.

Step 4:

State licensing/monitoring agencies assign a performance-based score to each program using a numeric or non-numeric score such as:

1. Below expectations
2. Meets expectations
3. Above expectations
4. Significantly exceeds expectations

The numeric or non-numeric scores incorporate:

- Status of the client at entry
- Provider process in serving clients
- Measurable client outcomes

The IRC replaces the current numeric LOI scores with the State licensing/monitoring agency assigned evaluations shown above.

The performance-based score will be developed as an outcome of the GOC task force implementing the requirements of HB 1146 (2004).

Step 5:

In the proposed new procedure, the IRC methodology will apply a modified test to determine preferred and non-preferred providers:

1. Programs with a performance-based score of Below Expectations (or the equivalent numeric score) are non-preferred programs regardless of requested rate. These programs may receive a rate increase only to meet specific State licensing/monitoring agency requirements as is current practice.
2. Programs that Meet Expectations are preferred if the requested rate is no more than x (*) standard deviation above the average requested rate. These programs are non-preferred if the requested rate exceeds x (*) standard deviation.
3. Programs that are Above Expectations are preferred if the requested rate is no more than y (*) standard deviations above the average requested rate. These programs are non-preferred if the requested rate exceeds y (*) standard deviations.
4. Programs that Significantly Exceed Expectations are preferred if the requested rate is no more than z (*) standard deviations above the average requested rate. These programs are non-preferred if the requested rate exceeds z (*) standard deviations.

(*) x , y , and z would be set equal to an increasing permissible number of standard deviations above the mean rate for programs that have increasing performance scores. For example x could be set to 1 standard deviation, much like the current preferred/non-preferred analysis. If a program reaches the next level of performance score, y could be set to 2 standard deviations, thus allowing the program to have a higher requested rate without becoming non-preferred. In the same manner, a program that reaches the highest level of performance score, z could be set to 2.5 standard deviations. The actual standard deviations would be set based on a simulated analysis once initial performance standards are established and assigned.

Step 6:

The balance of the IRC methodology will apply. As is current practice, preferred programs that request rates above the average requested rate will receive a rate increase equal to the CPI. This means that programs that are scored as Meet Expectations, Above Expectations, or Significantly Exceed Expectations and also request rates above the mean will receive rate increases equal to the CPI.

Other Issues:

Clusters (Step 2)

All program rate categories will not necessarily have the same number of clusters. The number of clusters and LOI cut-off point will depend on the number of programs in the program rate category and the distribution of LOI scores.

What mechanism will be used to determine the LOI cut-off points?

Preferred/Non-preferred determination (Step 5)

What mechanism will be used to determine deviation from mean rate that triggers preferred/non-preferred status?

Time Frame to Implement

New LOI scores available

Performance based measures available

IRC process for FY 2008

Use new LOI but not clusters