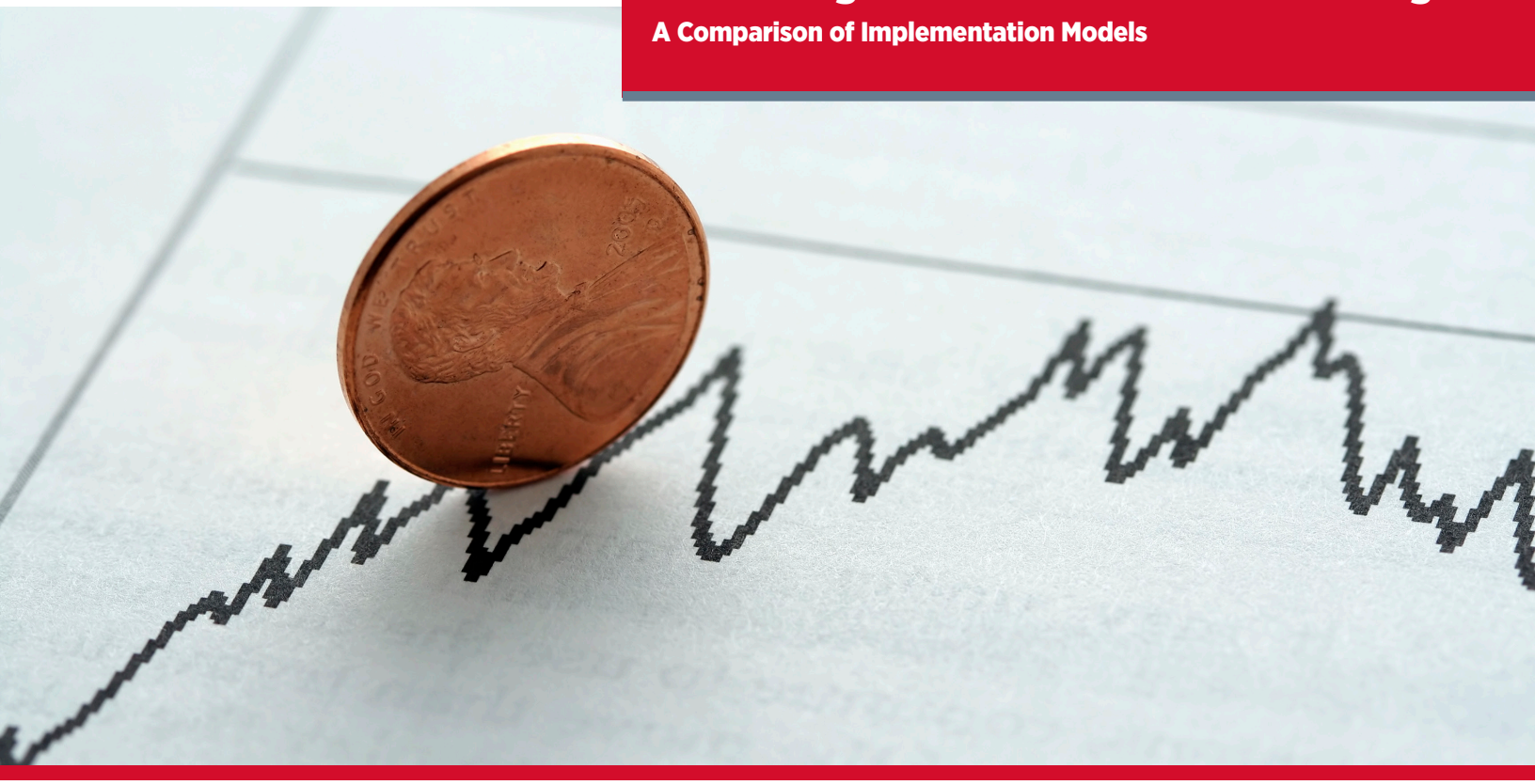
Introducing Performance-Based Contracting:

A Comparison of Implementation Models



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The Allegheny County Department of Human Services (DHS) is dedicated to meeting the human services needs of county residents, particularly the county's most vulnerable populations, through an extensive range of prevention, intervention, crisis management and after-care services.

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The Allegheny County Department of Human Services (DHS) made significant changes to the way it does business with senior citizen centers and child welfare placement providers with the introduction of performance-based contracting (PBC). In doing so, two human services systems with distinctly different populations were, for the first time, brought under contracts that seek to improve outcomes and promote greater efficiency and innovation by linking provider payments to performance measures.

While DHS's Area Agency on Aging (AAA) and Office of Children, Youth and Families (CYF) shared the goal of achieving better outcomes through PBC, the models that evolved, the approaches taken and the challenges encountered varied in important ways.

This report focuses on two of the ways in which DHS is implementing PBC. It also includes a brief description of a third model currently under development in the criminal justice system, through the Allegheny County Jail Collaborative.

PERFORMANCE-BASED CONTRACTING IN ALLEGHENY COUNTY'S SENIOR CENTER NETWORK

Introduction

When performance-based contracting (PBC) was introduced in Fiscal Year 2013–2014 (FY13/14), it significantly transformed the process by which the Area Agency on Aging (AAA) allocates funds to and monitors performance of the more than four dozen senior centers in Allegheny County. But getting to that point required a significant commitment — of time, will and leadership — on the part of center providers and AAA.

Prior to July 1, 2013, provider agencies had counted on getting about the same amount of funding from AAA each year — regardless of attendance, service mix, or introduction of new or innovative programming — for at least 30 years. The basis for each center's AAA allocation was largely a mystery, to current AAA management and providers alike.

Efforts to address these funding inconsistencies had twice failed to gain the necessary traction. But the third time was the charm, due to a number of factors: political will and advocacy; a changing funding environment; a decade of gradually-increasing program and quality requirements for providers that laid the groundwork for a more significant change; and engagement of the provider network in both identifying the need for change and designing the solution. The resulting model combines an increased focus on program standards and quality with a rational and consistent funding strategy.

The new model is now in its second year of operation and has already resulted in positive changes for the network of providers and the consumers served, including an increased emphasis on program quality, outcome-based monitoring, and innovation in outreach and programming. The smooth implementation and positive outcomes are evidence of the quality of the process put in place to design and execute the new model.

The Senior Center Network

Allegheny County's senior center network plays an important role in keeping older residents (age 60+) safe, healthy and independent. Fourteen AAA-contracted agencies operate a total of 51 centers, which together serve about 16,000 seniors each year.

Although the number of seniors served and the programs offered vary widely among centers, each is required by contract to provide a general set of services (e.g., programming, outreach, nutrition/lunch, volunteer engagement and information/referral). Twenty-one of the centers — the largest, most comprehensive in the network — are identified as focal points; focal points are required to serve an average of at least 50 consumers each day and provide a higher level of services, including at least one evidence-based program with a focus on wellness.

AAA allocates about $3.7 million annually to senior centers; this amount covers roughly 45 percent of the cost of operating the network. Providers must generate additional funds

from sources such as municipal and federal funding, center-specific fundraising efforts, and grants from foundations and other charitable organizations.

"No Rhyme or Reason"

"The way we paid centers was a significant issue," said Joseph Barker, then–bureau chief, AAA Independent Services. "There was no formula. No rhyme. No reason. No rationale. No one recalls why it was allocated that way."

"The way we paid centers was a significant issue. There was no formula. No rhyme. No reason. No rationale. No one recalls why it was allocated that way."

An analysis of how much centers were paid for each participant, per day, revealed wide funding discrepancies. Some centers were paid as little as 50 cents per "service unit" while others received as much as $20 — and the disparities had little to do with size, attendance trends or programming. A center serving a large number of seniors with a wide range of programs could receive less funding than a center offering fewer programs to significantly fewer seniors. As a result, the system provided little incentive for centers to explore innovation and posed a hardship to those experiencing growth.

This legacy contract process is believed to have begun in the 1970s and may have been based on some set of characteristics of the centers at that time. Whatever the basis of the allocations, it set a rigidly consistent funding pattern that failed to account for the changes taking place in the senior population and the centers that served them.

"Regardless of how many people sites were serving, regardless of the quality of programs people were offering, you kind of got what you had been getting — and there was really no rational reason why one agency got more or less than another agency," said Linda Doman, executive director of Eastern Area Adult Services, which operates a large focal point center in Turtle Creek and three smaller satellite centers in nearby municipalities.

Since 2000, AAA management had twice tried to generate enthusiasm for a process that would lead to a more equitable and transparent solution. Neither of those attempts — one involving providers and one with AAA in the lead — got very far. The complexity of the task was daunting, and, in addition, providers were worried about the possibility that their funding would be reduced.

It's not that providers were unaware of the funding discrepancies. In fact, they all knew that it existed — even though none were completely sure of how they stacked up against their peers. The funding process and the inequities it was suspected of creating tended to weaken the fabric of the senior center network.

"It didn't do much to pull the network together," said Alexis Mancuso, assistant executive director of the Jewish Community Center of Greater Pittsburgh, which operates a focal point center in the City of Pittsburgh's Squirrel Hill neighborhood. "We didn't really know — but we suspected — what other providers were getting. It was sort of the elephant in the room. Nobody talked about it. But we suspected this one got more than we got and we had more people and

that wasn't fair. It led to competition. I think it led to some mistrust. This network was not used to coming together for problem-solving and strategy."

But those weren't the only reasons that it took so long to address the situation. To understand the resistance to change, it is necessary to understand the senior center consumer population and its political influence. Senior center participants tend to be healthy and active seniors, individuals who are experienced and skilled advocates for causes they are passionate about. Their access to politicians and government officials is legendary. Even a rumor of possible changes to their centers would bring out this strong voting bloc in force.

But these powerful seniors are just as quick to support system improvements, as long as they are convinced — by providers they trust — that the changes are necessary *and* beneficial.

These factors — and past experiences with system change — informed AAA's design of the process to incorporate PBC into its senior center network.

Initiating Change

Even though it had not yet managed to tackle the issue of funding inequities, AAA had begun to work with the senior center network to develop progressively tighter programmatic expectations as early as 2006.

These expectations included implementing quality standards across the network that covered a range of senior center operations; revising the scope of services for senior centers to better define expectations; improving the yearly monitoring process through which providers showed evidence of program compliance; requiring annual program evaluations; and adding healthy-aging programming to senior center contracts.

Such initiatives did not link performance with funding. But by 2010, it had become apparent that PBC was gaining in popularity. The York (Pa.) AAA had changed its funding formula based on the volume of meals served, and the Commonwealth was beginning to float the idea of unit funding for senior centers. Given the fact that change appeared imminent, and aware that the local political climate was right for such a change, Barker suggested to AAA Administrator Mildred Morrison that it was time to attempt, once again, to resolve the funding inequities and improve the quality and efficiency of centers across the network. With the support of DHS leadership, AAA issued a Request for Qualifications (RFQ) to all senior center providers, inviting them to indicate their interest in participating in a pilot project to design a PBC model that included a new funding strategy and higher performance standards.

The Pilot

Seven of the 17 providers submitted responses to the RFQ, and three were chosen through a competitive application and interview process. The three agencies — The Jewish Community Center of Greater Pittsburgh, Vintage, Inc. and Eastern Area Adult Services — were charged with developing a recommendation to present to AAA administration. The recommendation was to

include strategies designed to improve the reach and quality of centers, a funding and contract model that was transparent and linked to measurable indicators of performance, expanded program standards and requirement, and a review to determine which activities, at a minimum, should be required.

GUIDING PRINCIPLES OF THE DESIGN TEAM

- Focus on quality of service to participants
- Provide incentives for high performance
- Tie funding to number of seniors served
- Emphasize and reward services provided at focal point centers
- Promote collaboration and consolidation throughout the network
- Recognize the ongoing role of neighborhood programming
- Balance performance / funding risk across the network.

"I felt we needed to address the inequity of the system and figure out how to move forward to address changing demographics, changing needs and changing interests," said Doman.

High on the list of priorities was designing a performance-based formula that didn't disproportionately harm the centers facing a cut in funding or unduly favor those whose metrics made them eligible for a funding increase. Key to the success of any such formula was accurate collection and use of data. The team discovered irregularities in service data that had not been addressed because data had not been used to determine funding levels or to monitor contract compliance; as such, it had not been considered a priority. Since average daily attendance was going to be a key performance measure, an early task required that common definitions, yearly schedules and data collection strategies be developed. Several months were spent meeting with providers — reviewing, revising and verifying their numbers before the contract development team had reliable data to work with.

"It mattered if you had 30 people or 130 people a day. That should be part of the formula. But you'd better be sure that senior center A really does have only 30 people a day and center B really does have 130," said Ann Truxell, executive director of Vintage, Inc., which operates a large focal point in Pittsburgh's East Liberty neighborhood. "We found that the data weren't credible. Data had been collected for a long time, but were never used for anything and had never been verified."

Because no additional funding was going to be available to implement the new model, the development team faced the reality that reallocation of existing funds would result in a gain for some providers and a loss for others. They spent nearly two years researching and designing a variety of models and working with a consultant to perform simulations with actual data to test each model and determine its impact on individual providers and the system as a whole.

They included other providers in the process through the formation of committees, jointly staffed by providers and AAA representatives, that focused on monitoring, scope of service and training. The committees explored future quality and outcome measures, reviewed and revised the scope of services for senior centers, determined how the new contracts would be monitored, and developed and implemented training on issues such as data collection and reporting. They also met regularly with other providers to discuss progress and ideas.

Implementation of the New Contract Model

By March of 2012, the team had designed a preliminary funding model and convened a meeting of all provider agencies to give them a preview of the funding formula; this allowed them to estimate the funding implications for their agency and begin to consider operational ramifications.

Over the next few months, the team finalized a contract model with funding based largely on average daily attendance reported by senior centers. Satellite centers receive funding equal to their average daily attendance multiplied by $1,000. Focal points receive an annual base payment of $60,000 in addition to the $1,000 attendance multiplier.

Before finalizing any components of the new funding strategy and performance requirements, however, they presented the model to Morrison for her review and approval. She, in turn, sought approval from Marc Cherna, DHS director, and William McKain, Allegheny County manager. Their immediate and unconditional support for the plan — based on the participatory development process, logical methodology and consumer focus — was encouraging. It was time to introduce the new model to the network.

One striking example of the discrepancy concerned two providers who served approximately the same number of participants each day, yet one provider's allocation was 73 percent greater than the other's.

In September, AAA convened a mandatory meeting of all agency CEOs, at which the final program standards and funding model were presented. AAA also revealed the current and projected funding levels of all providers, and, for the first time, provider agencies were able to see the range of funding inequities within the network. With this information, they could compare the impact of the changes on their agency with that of their peers. "When the funding system was uncovered and shown to everybody, it was hard to make an intelligent argument to leave it alone," Truxell said. "Everybody agreed that a change had to be made."

They were also told about another aspect of the new model: a separate *performance fund* that offers competitive small grants to providers for innovation, pilot projects and other improvements that enable them to better serve their senior communities.

Agencies were told that the funding changes would be phased in over three years, and that they were to develop a plan to accommodate the financial and programmatic changes (e.g., restructure service delivery, consolidate programs, request designation as a focal point) by the end of the year. Once their plan was approved by AAA, they had until the beginning of FY13/14 (July 1, 2013) to implement the changes.

PBC is expected to promote efficiency and new outreach and programming strategies among centers. For example, average daily attendance as a key funding measure provides an incentive to centers to develop more effective ways of reaching and engaging seniors in their community and to rethink the quality and scope of services in order to attract and retain them.

How Has PBC Changed the Senior Center Network?

Now in its second year, PBC has already transformed the Allegheny County senior center network in a number of ways. And AAA administrators expect the performance-based model to continue to evolve over time, particularly in regard to quality measures.

The following are just a few of the changes that have occurred as a result of PBC:

- Eastern Area, which received a significant funding cut, explored options for consolidating services among its three satellite centers and its main focal point center.

  "In an effort to have quality centers, we are focusing on the regional concept of a strong focal point system," Doman said. "We are looking at some consolidation to our focal point, trying to develop our partnership models and using volunteers more."

- The number of senior centers operating in the county decreased from 56 to 51 following the implementation of performance-based contracting. The decrease was primarily due to consolidation within the network.

  "They're doing innovative planning, and it is all about better services for consumers and tying our money to performance," Barker said. "They're trying to figure out the marketplace and where they should be located. They're studying the demographics to see where people are aging in their community."

- The performance fund generated proposals from more than half of all network providers in the first year. Lutheran Service Society, for example, applied for funds to support their efforts to work with older adults to enhance their social networking skills using new technology.

- And there is evidence to suggest that the network itself is undergoing a profound transformation in the wake of performance-based contracting. Agencies have emerged with a stronger voice in shaping policies that affect their centers and a newfound willingness to share ideas, issues and solutions to better serve a growing senior population. The loss of two agencies (one as a result of a merger; one that closed its doors due to challenges unrelated to PBC) provided a clear demonstration of the remaining system's ability to work together to absorb and serve a larger number of consumers.

  "The network feels different," Mancuso said. "The elephant in the room is gone. The level of tension has been removed. We're talking to one another. We're collaborating. We're sharing. We're having conversations we never would have had at meetings. We actually know one another now."

Challenges and Keys to Success



Implementing Change

The provider network faced changes in program expectations *and* funding. The difficulty was compounded by the fact that some providers would be adversely affected by the financial changes.

"Change is hard," said Truxell. "People by their nature are change-resistant, even when change is innocuous. This was not an innocuous change."

But the fact that the changes would affect the finances of the three lead agencies in different ways played a key role in establishing their credibility as champions of the new contract and in softening the blow for those who would be facing funding cuts. While two of the three received increases (ranging from five percent to 16 percent of their allocation), Eastern Area faced a 27 percent decrease in its total allocation.



Time Commitment

The time that designing a new contract demanded of the three lead agencies far exceeded their most liberal estimates.

"We kid each other a lot. We say that had we known that it would take pretty much half of our time for more than two years, we might have thought twice about it," Mancuso said. "We are all passionate about the work, but none of us anticipated the amount of time and research and models and communication and meetings with stakeholders it took to do this."

AAA, anticipating the commitment that would be required, provided $30,000 to each of the lead agencies to support their capacity during the development process.



Transparency and Inclusion

Previous efforts to address the funding method had been unsuccessful, and the fact that the senior center network did not have a strong history of mutual trust and collaboration did not bode well for acceptance of a dramatic system overhaul orchestrated by only three of its members.

"Transparency and participatory processes take a lot of time. It would have been a lot easier to have locked ourselves in a closet to get it done," Mancuso said. "But this represented an opportunity to bring the senior center network together around an important issue. So we felt it was important to be transparent and create a culture in which providers could begin to talk and share concerns and have dynamic conversations. We wanted to involve the network in all of our thinking and findings at every strategic interval to keep them engaged. We didn't want this to be something that happened in the back room."

The three lead agencies requested that they be allowed to include the entire network as part of the process, so that they could make ongoing decisions based upon their input, advice and concerns. By making the process transparent and inclusive, providers did not need to be convinced that the decades-old system of funding them at their historical levels needed to be replaced — they saw it for themselves.

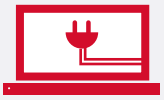


Effective Leadership

While it was important that the entire provider network be included in the process, leadership had to come from within the network, to provide credibility to the process and the outcomes. Their leadership proved to be critical in both developing the performance-based model and convincing other agencies to support the finished product.

"The three lead executives took a leadership role in all of the meetings," said Barker. "And it helps when you have one of the leads stand up and say, 'I'm going to lose $90,000 over three years, but I believe in this.'"

But the vision, leadership and commitment of AAA administrators and staff were key to getting the process started and keeping it on track. Beginning with Barker's determination to change the existing contract model and his research into / advocacy for PBC as an appropriate alternative, to crafting of the pilot RFQ and helping providers to navigate the complex development process, to maintaining the focus on quality programming for seniors, AAA demonstrated the way that government entities can stimulate system improvement.



Technical Support

The use of data to identify the most equitable funding model was considered critical to the process. But cleaning up the data, and using it to evaluate various strategies, required expertise that was not available within the network.

Technical support from a consultant engaged by AAA was instrumental in the creation of a funding formula. For example, it enabled the development team to run actual senior center data through various funding models and gauge the financial impact each would have on individual centers and the system as a whole.

"It was very helpful to see these models projected and carried out — we could immediately draw conclusions about which ones were worthy and which ones were not," Mancuso said. "It was like having a master calculator. Every time we came up with a new idea, [the consultant] was able to lay it out statistically so we could see very quickly the impact it would have."



Phased Implementation

Agencies that faced funding cuts were understandably concerned about the implications of those cuts for ongoing program operation; increased programmatic expectations were also a source of concern. The decision to implement performance-based contracting over a three-year period helped to smooth the transition, allowing agencies to adjust in stages, which was particularly important to those whose funding was reduced under the new contracts.

Having to take a $90,000 cut in the first year would likely have forced Eastern Area to close some or all of its three satellite programs. "That would've meant immediate change for people who have gotten used to the place where they have their noontime meal and where they socialize," Doman said. Instead, the gradual rollout buys the agency time to consider its options, develop a strategy and make an orderly transition.

Performance-based contracting is a concept being extended beyond aging and child welfare as DHS increasingly moves from program-funded models for reimbursing providers toward methods of payment that consider their service-related outcomes and offer incentives to improve them. One example is the PBC model recently developed by the Allegheny County Jail Collaborative.

The Allegheny County Jail Collaborative

The Allegheny County Jail Collaborative, a 13-year-old cross-systems initiative for reducing recidivism rates among ex-offenders, is implementing a PBC model with DHS-funded providers in fiscal 2014–2015.

DHS partners with the Allegheny County Jail, Health Department and Court of Common Pleas to provide inmates in the jail and those recently released with innovative re-entry and recovery programs ranging from educational services to parenting, life skills and vocational training. The Collaborative has emerged as a nationally recognized model for reducing recidivism by helping inmates re-enter the community successfully.

The traditional method of payment to DHS-funded Jail Collaborative providers was program-based: Contracted agencies were paid for providing programs serving a prescribed set of inmates regardless of enrollment or other outcomes.

DHS in the upcoming fiscal year will for the first time implement a fee-for-service model with performance incentives for all of the Jail Collaborative providers it funds. The contracts cover five agencies that provide a range of services, including education services, such as GED classes, employment and vocational training, cognitive behavioral therapy, family support classes, and service coordination for inmates who've returned to their communities.

"Across DHS, there has been a shift to fee-for-service and interest in paying for outcomes," said Emily Kulick, manager of external partnerships in the DHS Office of Data Analysis, Research and Evaluation. "It's a difficult transition to make. But we need to be aware of the outcomes so we can make the right program investment decisions."

In the first year, 80 percent of an agency's funding is based on enrollment outcomes and 20 percent is based on performance measures specific to the type of services provided.

Payment for education services, for example, is based on enrollment data and improvement in grade equivalency determined by a pre-test and a post-test given to each participating inmate. In the case of employment and training services, the performance measures include job placement rates and the rate at which participants remained employed for three months.

Another factor considered in the new payment formula is a target completion rate, which is the percentage of an agency's clients it is expected to successfully serve. The target is determined by enrollment and a baseline rate of clients successfully served by each agency, taking into consideration circumstances beyond the control of agencies that may affect service delivery, such as an early release of an inmate or issues that arise in the jail that prevent an inmate from participating in services.

Reduction in recidivism, the overarching goal of the Jail Collaborative, is not included in the funding model being rolled out during the first year of performance-based contracting. DHS, however, will begin reporting to each provider the recidivism rates of the clients they serve and is expected to look at ways to consider recidivism in future generations of the funding model.

PERFORMANCE-BASED CONTRACTING IN THE CHILD WELFARE SYSTEM

Introduction

Performance-based contracting is nothing new to child welfare. For longer than a decade, an increasing number of public child welfare agencies across the United States have adopted it to align desired outcomes, such as shortening a child's stay in out-of-home placement, with the payments that placement providers receive for their services.

DHS began laying the groundwork for the transition to performance-based contracting several years ago, and by early 2014, was in the final stages of developing a model for placement agencies that provide foster care, kinship care and congregate care. The new model is designed to achieve better outcomes for children by introducing common goals across the child welfare system, helping placement agencies understand their role in improving outcomes, and providing financial incentives and the data to do so.

The new contract model will replace a long-standing provider reimbursement method that offered no financial incentives to improve outcomes and, in fact, resulted in a loss of revenue for providers who were successful in discharging a child to a permanent home. Performance-based contracting is also expected to become a vehicle for reinvesting the money saved into aftercare services for previously-placed children and their families and, by doing so, provide an additional source of revenue for placement providers.

Developing the right performance-based contracting model has proved challenging. Many placement providers in the county, for example, serve small numbers of children, which complicated efforts to use outcome data to measure improvement in a way that is statistically valid and fair.

FY13/14 was a pilot year for the new performance contracts. Although the model remained a work in progress for much of the year, progress was made in the setting of performance targets and the use and understanding of outcome data among providers.

The Child Welfare Provider Network

The new contract model applies to DHS-contracted foster care, kinship care and congregate care providers. In Allegheny County, the majority of children in placement are in foster care, and a large number of those children are in kinship care.

In Allegheny County, the number of children in placement has decreased by more than half since 1996. The average time children spend in placement has declined as well.

The network of placement providers is one in which the majority serve fewer than 100 children a year, with more than half of those agencies serving 65 or fewer children. One exception is the county's only kinship care agency, A Second Chance, Inc., which serves approximately 700 children each year. Its admissions level reflects the county's preference for placing children in kinship care, which research suggests produces better outcomes for children.

Traditionally, placement providers were paid a per-diem fee for each child, a common practice across the nation. The contracts, however, did not link payment to child outcomes or offer financial incentives to improve them. Payments stopped when a child was discharged to a permanent home and would resume only if permanency failed and the child re-entered the system. Under that system, agencies lost revenue when they achieved desired permanency outcomes.

In Allegheny County, the number of children in placement has decreased by more than half since 1996. The average time children spend in placement has declined as well. And the trend has continued in recent years. Point-in-time comparisons show, for example, that the number of children in placement fell 20 percent to 1,422 between calendar years 2010 and 2014. As a result, providers have seen a steady decrease in revenues.

Revenue lost as a result of decreasing admissions has been a source of financial stress for most placement providers. Even Second Chance has had to take steps to make ends meet, including having management staff work without pay a few days each month and freezing the wages of others.

Providers across Pennsylvania also argue that state and county reimbursement rates for children in placement are insufficient and contribute to their financial difficulties. The issue is currently being reviewed by the Rate Methodology Task Force, which was established by legislation passed by the Pennsylvania General Assembly in 2013.

"Providers are in a very difficult position," said James Rieland, western region liaison for the Pennsylvania Council of Children, Youth and Family Services. "Some of it is caused by a decrease in kids coming into the system. Some of it is caused by fiscal decisions being made about the reimbursement rate. There isn't a provider in the business who wouldn't say having fewer kids in care is a positive thing. But this is a business. If I can't run a good business, I go out of business and I can't provide services."

Placement providers and DHS also share the challenges of adapting to changes in the child welfare population, including the increased complexity of needs among youth who remain in care. Nearly half of the children in care in 2011, for example, were age 13 or older — an age group that often faces the greatest challenges in reuniting with their families or adjusting to other permanent homes. Across Pennsylvania, about 34 percent of 13-through-17-year-olds who leave placement return to care within 12 months.

Focus on Outcomes

Performance-based contracting is a key part of DHS's strategy to address the changes in child welfare and improve the outcomes of children in care.

In recent years, DHS began exploring ways to help providers understand their individual performance indicators, DHS's goals for children in placement and the role that providers play in achieving those goals. With the assistance of Chapin Hall at the University of Chicago, a

research center with a focus on children and family issues, DHS developed an analytic model for managing and analyzing provider data. This tool allowed DHS to gather and analyze data to determine how specific providers perform on key child outcomes, such as the number of days children are in care and how many return to care after exiting a previous placement. It was also used to help providers understand how they perform in regard to such outcomes.

DHS staff periodically met with providers over the course of four years to review their data and show them how their data compared with those of other agencies. "Some really dug in. Some of them either thought [the data] was wrong or didn't believe it. All of them knew that until it was tied to something, it was just information," said Erin Dalton, deputy director, DHS Office of Data Analysis, Research and Evaluation (DARE).

The availability of this provider-specific data laid the groundwork for performance-based contracting. And Allegheny County's participation in the federal Child Welfare Demonstration Project opened the door to including financial incentives for improved outcomes and to fund aftercare services for children leaving placement. As part of this federal initiative, the Department of Health and Human Services provides a waiver that allows federal funds to be used more flexibly to advance innovative approaches to improving child safety, permanency and well-being. Such flexibility allows DHS to retain placement funding that typically is discontinued after a child is discharged to a permanent home. Those dollars, in turn, can be reinvested in new or expanded services to improve outcomes for children.

"High-quality transition planning is the only effective way of reducing re-entry to placement."

One outcome that DHS would like to improve is the number of children who return to placement. In Pennsylvania, about 27 percent of children return to foster care within 12 months after exiting their last placement. This is one of the highest rates in the nation, and Allegheny County's rates are not much better; about one in four children who leave an out-of-home placement returns to placement.

"High-quality transition planning is the only effective way of reducing re-entry to placement," said Dr. Sharon McDaniel, president and CEO of A Second Chance, Inc., "and it's not just an Allegheny County issue. Nationally, I am unaware of any organization or system that is doing transition planning well or consistently. Real transition planning requires that we are very clear with birth families — or other permanent caregivers — about our continued expectations of them. It also means that we come together as a system to make sure that families are connected with whatever supports they need to successfully meet those expectations and keep from returning to the behaviors that brought them into the system in the first place, whether that means traditional services, community-based organizations, support groups or natural supports."

In an effort to reduce the number of children returning to care, DHS is including re-entry rates as an outcome measure in the new performance-based contracts and utilizing a portion of the money saved through the new model to support services designed to improve the success rate of children who leave placement for a permanent home.

A New Contract Model Evolves

Performance-based contracting models vary significantly among states and counties. DHS based its model on one developed by the Tennessee Department of Children Services.

Like Allegheny County, Tennessee's traditional fee-for-service reimbursement method created incentives that worked against achieving permanency for children and did not tie performance to outcomes. As a remedy, Tennessee implemented a performance contracts model across the state that sets outcome goals and provides financial incentives for placement agencies to meet them.

Tennessee's child welfare system reported a significant increase in the rate of children who leave placement — with no increase in re-entry rates — during the first five years of the new model. In total, providers reported 235,000 fewer care days over that period, which represented a savings of about $20 million.

DHS set three outcomes goals to measure provider performance under the new contract: 1) exits to legal permanency, 2) days children spend in care, and 3) the number of children who re-enter care.

The performance contracts apply only to child welfare–funded placements; the model includes provisions for counting children who move between child welfare–funded placements and Juvenile Probation–funded placements. Children who are moved from a child welfare–funded placement and remain in a Juvenile Probation–funded placement for more than a week are considered as a discharge to "other exit" in the data. Conversely, children who move from a Juvenile Probation–funded placement to a child welfare–funded placement are counted as an admission.

Improvements in exits to permanency, days in care and re-entry rates are calculated for each provider by comparing current outcomes with their baseline data. The baseline data, which DHS has gathered over several years using the analytical model developed with Chapin Hall, is available to providers through a web-based tool. Agencies are not compared to one another in determining improvement.

The model also groups children by age and time spent in placement to more accurately determine baseline data and fiscal measures, given that such characteristics can influence outcomes and care patterns. Strata for children already in care consider their age and time in care. Recent admissions are grouped by age.

The general billing mechanism doesn't change under the performance-based contract model. Providers continue to be paid a per-diem rate for each child in their care. For the first time, however, financial incentives for providers to improve their outcomes are built into their contracts. The incentives take advantage of the funding flexibility provided in the Child Welfare Demonstration Project that enables DHS to retain and reinvest funds that otherwise would have been discontinued when a child leaves placement.

The general concept is to pass the savings from shorter lengths of stay, higher permanency exits and lower re-entry rates onto those providers who reduce their overall placement costs. Conversely, providers will reimburse DHS if their overall placement costs increased.

Initially, the idea was that providers who receive additional funds for achieving better outcomes can reinvest them in aftercare and family strengthening services designed to ease the transition from placement to permanency and reduce the number of children who return to care. Aftercare programs can provide families with the continuity of quality care that studies suggest helps to reduce the chances of children having to return to placement. Providing such services in the home has also been found, in some cases, to reduce the length of time children spend in placement.

In Allegheny County, strengthening the continuity of care is seen as a pressing need. "When we looked at service patterns from the past, we didn't see many families who received services after the child went home," said Megan Good, DHS manager of reporting and analysis.

But developing a contract model that enabled agencies to finance aftercare with their share of the money saved through better outcomes proved more challenging than anticipated. The chief problem was a statistical one. And it was significant enough to lead DHS to rethink its approach to financial incentives and expanding aftercare services.

Challenges

DHS designated FY13/14 as a "no-risk" pilot year for child welfare performance-based contracting. The idea was to have a transition period to demonstrate with current data how each placement provider would perform under the new contract without exposing them to the risk of penalties for failing to improve outcomes above their baselines.

It became clear, however, that for all but a few providers in the network, the relatively low numbers of children in their care presented a problem in assessing their performance on outcome measures. Having a small number of children in care amplifies changes in their outcomes, raising questions about the statistical significance of the rates among the majority of the providers in the network. For an agency with fewer than 50 children in care, for example, re-entry of a large sibling group would affect its re-entry rate much more harshly than it would for an agency with 750 children.

It also put in greater jeopardy the potential of smaller agencies to show enough improvement to earn the financial incentives in the contract, which raised questions about whether the incentives would lead to broad investment in the aftercare services DHS sought to strengthen.

"We have one kinship provider, and most of our kids are in kinship care. There is no problem executing the model with that provider," Dalton said. "There is a problem with everyone else. We are only reinvesting in them if they are doing better. One of the challenges is that it's hard to actually see if they doing better or worse over time."

DHS took several steps to address the problem. To start, only agencies with more than 20 children in their care fall under the scope of performance-based contracting, removing the smallest providers in the network of relatively small providers.

And DHS decided to fund aftercare services itself with a portion of the savings expected from performance-based contracting, rather than rely on agencies to pay for the services with reinvestment dollars they may or may not receive. DHS, in turn, will hire the placement agencies to provide the aftercare services for the children they serve, giving them an opportunity to develop a new source of revenue. To accommodate the change, DHS for the first time authorized placement agencies to continue to serve a family once the child has returned home. Such support previously would have been handled by another agency or not at all.

The new contract model also establishes a process through which providers can appeal issues and decisions related to their performance.

Providers were not without concerns about the new contract model. In early meetings with DHS staff, some expressed concern that the children they serve may be more challenging to serve than those of other providers, which would make improving their outcomes more difficult. The use of each agency's data from past years as a baseline for determining improvement is one way the model addresses such concerns. Baseline data will also be revised periodically.

Another concern is that outcome measures such as the length of time a child is in placement and if/when he exits involve decisions that only juvenile court judges are authorized to make; those decisions can also be influenced by child advocates, child welfare caseworkers and others. "To me, that's a major issue for providers," Rieland said. "I don't have control over when that kid comes out, yet I'm going to be held accountable for it. I'm prepared to release the kid in four months rather than six and child welfare recommends discharge for the kid, but the court says come back in three months and we will talk about it. Why should I get penalized for that?" DHS assured providers that using their own baseline data would accommodate this variable because baselines were calculated based upon events that occurred under the same decision-making structure.

Work in Progress

Whether the lack of authority in making placement decisions for children will affect providers' performance under the new contract model remained unclear during the pilot year. DHS is expected to present performance-based contracting and its goals to Juvenile Court judges, hearing officers and others in the child welfare system involved with children in placement.

Our shared challenge is to continue to improve the ways in which we communicate important and relevant information while ensuring that caregivers — particularly birth parents — have an equal voice.

"While it is true that the court makes the final placement decision," said McDaniel, "all parties have a voice in determining the best possible outcome for children and families. The problem emerges when the judge has to make that final decision on the basis of the limited information that can be shared during a brief court hearing, without the benefit of knowing details about the current situation or the volume of activity that occurred between hearings. Our shared challenge is to continue to improve the ways in which we communicate important and relevant information while ensuring that caregivers — particularly birth parents — have an equal voice."

Several aspects of performance-based contracting were still being developed or revised late in the pilot year. They included the percentage of savings that will be shared with providers who improve their outcomes over baseline and how the contract will accommodate the growing number of transfers to kinship care when measuring provider outcomes. Details of the plan to strengthen continuity of care through family stabilization services were also being developed.

"DHS has been pretty candid with providers about the pros and cons of where they are headed," said Rieland. "We still have concerns about a lot of what is being discussed, but it's been a good year of discussion. It has opened eyes to the aftercare and community stabilization needs of these kids and families and that's extremely positive. If you can reduce length of stay and costs, and improve services for families, it's a win for everyone."

Although performance-based contracting remained a work in progress throughout much of the pilot year, placement providers showed progress in developing outcome targets and becoming more familiar with working with data — practices DHS considers essential to improving child welfare outcomes in the county. "When we use data across agencies, it's pretty clear where agencies have room to improve," Good said. "We want them to understand it, and dig in and start doing more data-driven planning and decision-making. That's just good practice."