Kent County Case Rate Pilot Fiscal Monitoring as of Fiscal Year 2019 Quarter Ending 9/30/2019

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Executive Summary

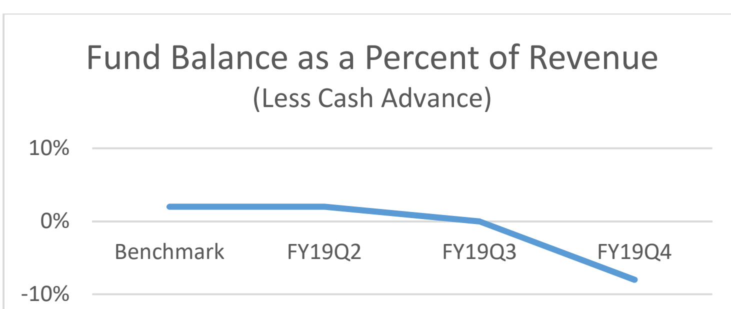
The purpose of this report is to document the quarterly fiscal monitoring of the Kent County Case Rate Pilot, performed by Lewis & Ellis, Inc. ("L&E") and Public Consulting Group ("PCG"). The purpose of the monitoring performed by PCG and L&E is to evaluate the adequacy of the case rate payments. This report documents the monitoring results as of the end of fiscal year 2019, quarter 4 (FY19Q4).

While some of PCG and L&E's monitoring measures did not indicate concern on their own, as a whole, the monitoring results are concerning. As of the end of FY19, the fund balance is 10% lower than the expected benchmark and is negative by a significant magnitude. This is best summarized by measure #3, Total Actual Revenue to Expenditures. The results of this measure are shown below.

Total Actual Revenue to Expenditures, FY18-FY19	
Total Actual Revenue (Less Cash Advance)[1]	$69,210,904
Total Actual Expenditures[2]	$74,747,371
Fund Balance (Less Cash Advance)	($5,536,467)
Actual Fund Balance as a Percent of Revenue	-8%
Benchmark Fund Balance as a Percent of Revenue[3]	2%
Actual-to-Benchmark Variance	-10%
Fund Balance (Including Cash Advance)	($1,386,467)

This measure does not include the $4.15M in cash advances (loans) WMPC received from MDHHS in FY19, though the fund balance including the cash advance is noted. The cash advances are not included in the measure because it would skew the purpose of monitoring, which is to evaluate the adequacy of the case rate payments.

The chart below shows recently observed trends for this measure.

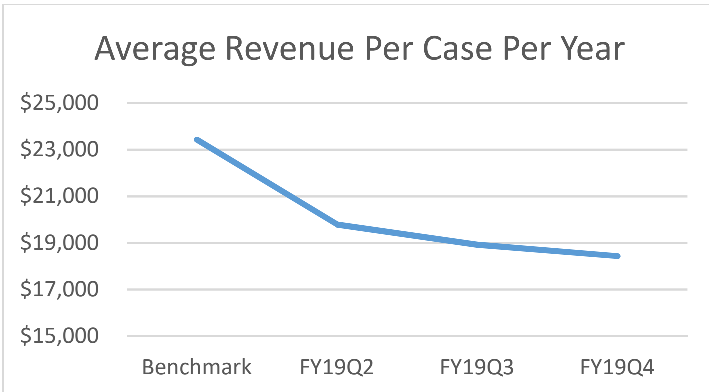


[1] From WMPC quarterly cost reports, does not include additional funding sources or interest revenue.
[2] From WMPC quarterly cost reports.
[3] The expected fund balance as a percent of revenue as established during testing performed during the development of the case rate.

The monitoring indicates that due insufficient revenue the current negative fund balance is expected to get worse if status quo is maintained. This is best summarized by measure #6, Average Revenue and Costs Per Case Per Year. The results of this measure are shown below.

Average Revenue Per Case Per Year, FY18-FY19	
Actual Average Revenue Per Case Per Year[4]	$18,439
Benchmark Average Revenue Per Case Per Year[5]	$23,430
Percent Difference	-21%

The chart below shows recently observed trends for this measure.

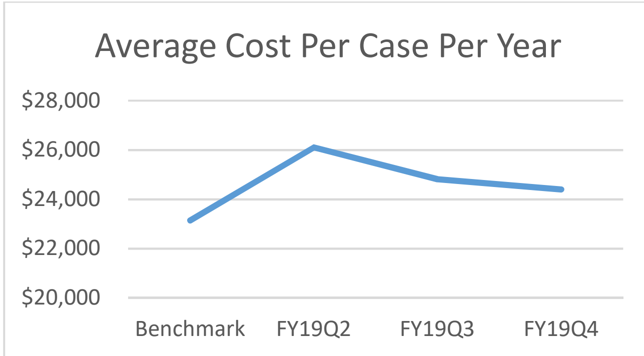


The magnitude percent difference for the average revenue per case per year has increased from -16% calculated for monitoring ending FY19Q2 and -19% calculated for monitoring ending FY19Q3, to -21%

Average Cost Per Case Per Year, FY18-FY19	
Actual Average Cost Per Case Per Year[6]	$24,397
Benchmark Average Cost Per Case Per Year[7]	$23,140
Percent Difference	+5%

[4] From the Cost Per Child Report, as provided by the WMPC. Does not include cash advance(s), additional funding sources, or interest revenue. Does not include consortium revenue.
[5] The expected revenue per case per year, as established during testing performed during the development of the case rate, adjusted for the missing administrative dollars and the recent addition of FY17 data.
[6] From the Cost Per Child Report, as provided by the WMPC. Does not include consortium costs or costs that cannot be allocated to a particular child.
[7] The average cost per case per year, as established during testing performed during the development of the case rate, adjusted for the missing administrative dollars and the recent addition of FY17 data.

The chart below shows recently observed trends for this measure.



The magnitude percent difference for the average cost per case per year has decreased from 13% calculated for monitoring ending FY19Q2 and 7% calculated for monitoring ending FY19Q3, to 5%.

Average Gain/(Loss) Per Case Per Year, FY18-FY19	
Actual Average Revenue Per Case Per Year	$18,439
Actual Average Cost Per Case Per Year	$24,397
Actual Average Gain/(Loss) Per Case Per Year	($5,958)

This measure is calculated using the 'Full Case Subset' as defined in the initial case rate development, which is all completed cases and all incomplete cases that have a length of stay greater than 2 years at the time of measure. This subset was used for this measure because revenue is front-loaded and costs are not usually uniformly distributed across the length of the case. The intent of this measure is to reflect the average revenue or cost per year over a whole case in order to best monitor the adequacy of the case rate payments.

The benchmark values in this measure are the benchmark values after adjusting for the recommended case rate adjustments disclosed in addendum #2 to the initial case rate methodology report. PCG and L&E observe that even if the actual revenue were increased to the benchmark, as recommended, this measure indicates that the revenue would still not be sufficient to cover costs. This gap between benchmark revenue and actual cost is 4%.

Measure #6 shows that the WMPC is observing significant losses on average for completed cases, as defined by the 'Full Case Subset'. The results of this measure are a major concern and signals that the negative fund balance is expected to get worse if status quo is maintained.

PCG and L&E have presented retrospective and prospective case rate adjustments that would address the revenue shortfall (as documented in addendum #2 to the initial case rate methodology report). The adjustments were presented after it was discovered that 1) some expenses were inadvertently excluded from the original case rate development and 2) FY17 costs, which were not included in the initial case rate development, were significantly higher than historical expenditures.

A few other key observations from the FY19Q4 monitoring were:

- The number of cases is below the benchmark and expected to decrease in the future. This is not a concern at this time because the distribution of case rate payments is consistent with expectations. The number of cases will continue to be monitored concerning the stability of the case rate payments under a lower number of cases.
- Improvements are being observed for the average length of a case and residential expenditures.
- Significant insufficiencies are being seen on cases that have been in care longer than 2 years.

Purpose & Scope

The purpose of this report is to document the quarterly fiscal monitoring of the Kent County Case Rate Pilot, performed by Lewis & Ellis, Inc. (“L&E”) and Public Consulting Group (“PCG”). The purpose of the monitoring performed by PCG and L&E is to evaluate the adequacy of the case rate payments. This report documents the monitoring results as of the end of fiscal year 2019, quarter 4 (FY19Q4) and recommended adjustments based on the monitoring results.

Limits on Distribution and Utilization

This report has been prepared for the use of The Michigan Department of Health and Human Services (“MDHHS”) and the West Michigan Partnership for Children (“WMPC”) regarding the quarterly fiscal monitoring of the Kent County Case Rate. The data and information presented is not appropriate for any other purpose. Any distribution of this report should be made in its entirety.

Data Reliances

L&E’s work was based upon data and information obtained through the WMPC and MDHHS. L&E did not perform a detailed audit of the data provided. L&E did review the data for overall appropriateness. If there were any material inaccuracies in the data provided, the conclusions reached in this report may be invalid.

Kent County Case Rate Fiscal Monitoring

Measure #1 – Number of Cases

Total Number of Cases	FY18	FY19
Actual	1,263	1,258
Benchmark[8]	1,554	1,554
Percent Difference	-19%	-19%

The number of cases in both fiscal year 2018 (FY18) and 2019 (FY19) are 19% lower than the historical benchmark. Taken by itself, this measure could be a concern for two reasons: 1) the amount of consortium dollars received in total is dependent upon the number of cases in care, and 2) a lower number of cases could indicate a lower credibility and lower stability of the case rate payment system.

Regarding the consortium dollars, beginning in fiscal year 2020 (FY20) the structure of the consortium dollars will be paid separate from the case rate, independent of the number of cases or number of case rate payments.

Regarding credibility and stability, the percent difference shown in measure #1 is not significant enough to warrant large concern regarding this issue. If the percent difference is lower than -35%, then it may be recommended that MDHHS hold a reserve to pay for high cost cases beyond a certain threshold. The level of that threshold would be explored at the time such a need is presented.

The results of this measure do not present any concerns regarding the level of the case rate revenue received, the decrease in revenue received due to a lower number of cases is expected to be offset by a decrease in expenditures due to a lower number of cases.

There are no current concerns regarding the results of this measure.

[8] The average number of cases per year during the FY10-FY17 time period.

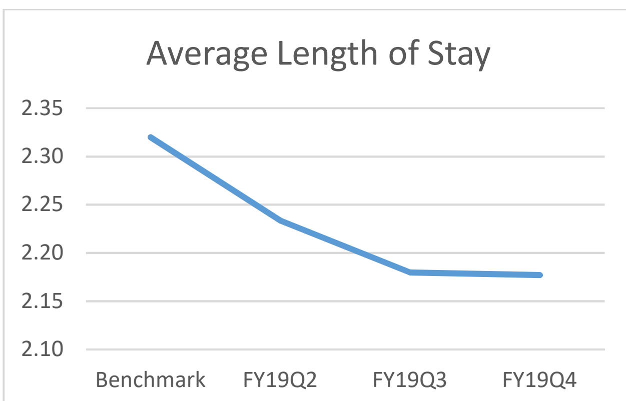
Measure #2 – Average Length of Stay

Average Length of Stay[9]	
Actual	2.18
Benchmark[10]	2.32
Percent Difference	-6%

This metric is calculated using the 'Full Case Subset' as defined in the initial case rate development, which is all completed cases and all incomplete cases that have a length of stay greater than 2 years at the time of measure. This subset was chosen so that the incomplete cases whose length of stay at the time of measure was under the expected average would not falsely decrease the calculated average. We did not exclude the incomplete cases whose length of stay at the time of measure was over the expected average in order to ensure that lengthy cases were fully included in the calculated average.

The average length of stay is 6% lower than the historical benchmark. Reducing length of stay is one of the primary goals of the case rate. Reduction in the length of stay is one indicator that the case rate may be incentivizing shorter stays in out of home care.

The chart below shows recently observed trends for this measure.



There are no current concerns regarding the results of this measure.

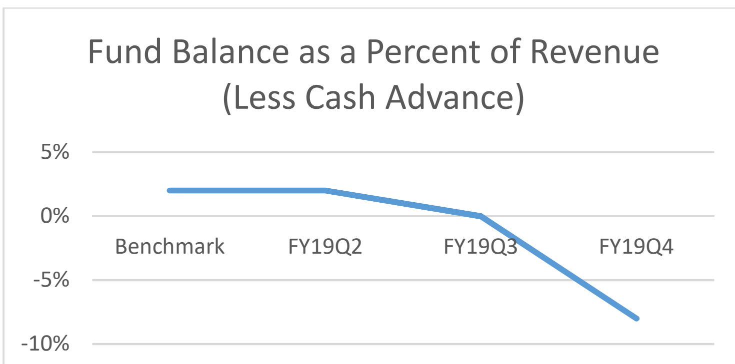
[9] This metric is calculated using the 'Full Case Subset' as defined in the initial case rate development, which is all completed cases and all incomplete cases that have a length of stay greater than 2 years at the time of measure.
[10] As determined in the initial case rate development using the 'Full Case Subset'.

Measure #3 – Total Actual Revenue to Expenditures

Total Actual Revenue to Expenditures, FY18-FY19	
Total Actual Revenue (Less Cash Advance)[11]	$69,210,904
Total Actual Expenditures[12]	$74,747,371
Fund Balance (Less Cash Advance)	($5,536,467)
Actual Fund Balance as a Percent of Revenue	-8%
Benchmark Fund Balance as a Percent of Revenue[13]	2%
Actual-to-Benchmark Variance	-10%
Fund Balance (Including Cash Advance)	($1,386,467)

As of the end of FY19, the fund balance is 10% lower than the expected benchmark. This measure does not include the $4.15M in cash advances (loans) WMPC received from MDHHS in FY19, though the fund balance including the cash advance is noted. The cash advances are not included in the measure because it would skew the purpose of monitoring, which is to evaluate the adequacy of the case rate payments.

The chart below shows recently observed trends for this measure.



The below benchmark results for this measure are concerning. Additionally, in conjunction with measures #6 and #7, it is apparent that the negative fund balance is expected to get worse if status quo is maintained. PCG and L&E have recommended retrospective and prospective case rate adjustments to address the revenue shortfall (as documented in addendum #2 to the initial case rate methodology report). The adjustments were recommended after it was discovered that 1) some expenses were inadvertently excluded from the original case rate development and 2) FY17 costs, which were not included in the initial case rate development, were significantly higher than historical expenditures.

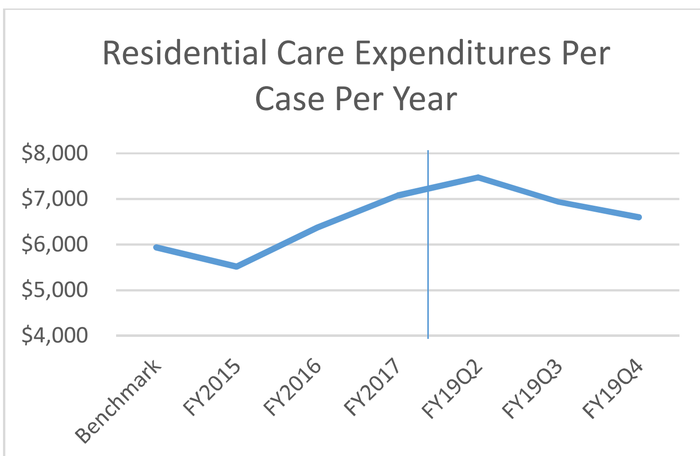
[11] From WMPC quarterly cost reports, does not include additional funding sources or interest revenue.
[12] From WMPC quarterly cost reports.
[13] The expected fund balance as a percent of revenue as established during testing performed during the development of the case rate.

Measure #4 – Residential Care Expenditures

Residential Care Expenditures, FY18 -FY19	
Total Actual Residential Care Expenditures[14]	$21,997,241
Actual Residential Care Expenditures Per Case Per Year	$6,602
Benchmark Residential Care Expenditures Per Case Per Year[15]	$5,937
Actual-to-Benchmark Cost Variance	$665
Percent Difference	+11%

The residential care expenditures per case per year are approximately 11% higher than the historical benchmark, which is a concern. The benchmark for this measure is an estimated average over 8 years of historical data and the estimated residential care costs, as well as the overall costs, in the most recent years prior to the case rate were higher than in prior years. The estimated residential care expenditures averaged over the most recent three years prior to the case rate pilot was $6,322, reaching an estimated $7,075 in FY17, the year prior to the case rate pilot. Therefore, the actual residential care expenditures per case are 7% lower than they were in FY17.

The chart below shows recently observed trends for this measure.



The magnitude percent difference for this measure has decreased from 23% calculated for monitoring ending FY19Q2 and 17% calculated for monitoring ending FY19Q3, to 11%.

[14] From WMPC quarterly cost reports. Includes line items: "Residential Services", "Other [Kids First & 1:1 Supervision]", and "Residential Services One-on-One Supervision".

[15] The estimated average residential costs per year as determined using the historical data used to determine the case rate. Data includes the addition of the missing administrative dollars and the recent addition of FY17 data. Estimated using actual historical cost percentages for line the following line items: SWSS/SACWIS, County Childcare Fund, and Per Diem Rate Increases. Service type data was not available on other line items so no dollars from those line items were included as residential costs.

One goal for the case rate was to incentivize less restrictive placements. PCG and L&E understand that WMPC is working on improving their utilization management model, as well as tracking performance measures, with the goal of reducing residential care expenditures.

Measure #5 – Payment Distribution

Payment Level	Expected Number of Payments	Expected Percentage of Payments	Actual Number of Payments	Actual Percentage of Payments	Variance
Levels 1/2	2,265	46.1%	2,019	46.8%	+1%
Levels 3/4	1,443	29.4%	1,415	32.8%	+3%
Levels 5+	1,200	24.4%	882	20.4%	-4%

This measure indicates that the actual distribution of payment levels is not skewed unfavorably (skewed heavier on Level 5+ payments) from what was expected using historical data.

There are no current concerns regarding the results of this measure.

Measure #6 – Average Revenue and Cost Per Case Per Year

This measure is calculated using the 'Full Case Subset' as defined in the initial case rate development, which is all completed cases and all incomplete cases that have a length of stay greater than 2 years at the time of measure. This subset was used for this measure because revenue is front-loaded, and costs are not usually uniformly distributed across the length of the case. The intent of this measure is to reflect the average revenue or cost per year over a whole case in order to best monitor the adequacy of the case rate payments.

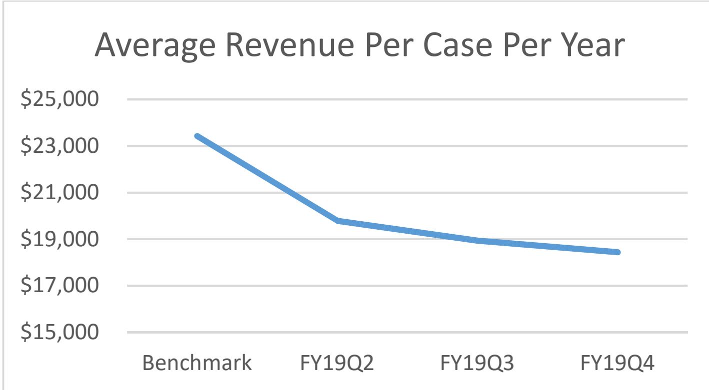
Average Revenue Per Case Per Year, FY18 -FY19	
Actual Average Revenue Per Case Per Year[16]	$18,439
Benchmark Average Revenue Per Case Per Year[17]	$23,430
Percent Difference	-21%

The average service revenue per case per year is 21% lower than the benchmark. The benchmark values in this measure are the benchmark values after adjusting to account for 1) some expenses that were inadvertently excluded from the original case rate development and 2) the significant growth in costs between FY16 and FY17, which were not included in the initial case rate development (documented in addendum #2 of the original case rate methodology report).

The chart below shows recently observed trends for this measure.

[16] From the Cost Per Child Report, as provided by the WMPC. Does not include cash advance(s), additional funding sources, or interest revenue. Does not include consortium revenue.

[17] The expected revenue per case per year, as established during testing performed during the development of the case rate, adjusted for the missing administrative dollars and the recent addition of FY17 data.

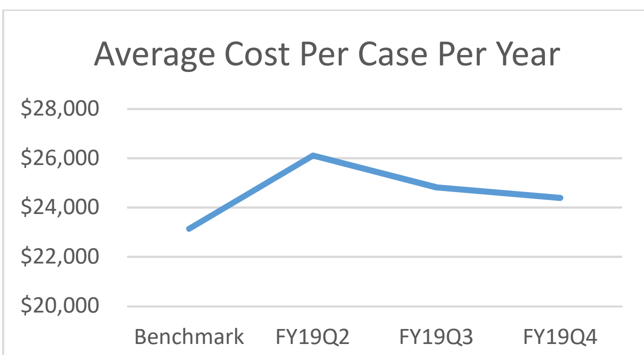


The magnitude percent difference for the average revenue per case per year has increased from -16% calculated for monitoring ending FY19Q2 and -19% calculated for monitoring ending FY19Q3, to -21%

Average Cost Per Case Per Year, FY18 -FY19	
Actual Average Cost Per Case Per Year[18]	$24,397
Benchmark Average Cost Per Case Per Year[19]	$23,140
Percent Difference	+5%

The average cost per case per year is 5% higher than the historical benchmark. The benchmark values in this measure are the benchmark values after adjusting to account for 1) some expenses that were inadvertently excluded from the original case rate development and 2) the significant growth in costs between FY16 and FY17, which were not included in the initial case rate development (documented in addendum #2 of the original case rate methodology report).

The chart below shows recently observed trends for this measure.



[18] From the Cost Per Child Report, as provided by the WMPC. Does not include consortium costs or costs that cannot be allocated to a particular child.

[19] The average cost per case per case per year, as established during testing performed during the development of the case rate, adjusted for the missing administrative dollars and the recent addition of FY17 data.

The magnitude percent difference for the average cost per case per year has decreased from 13% calculated for monitoring ending FY19Q2 and 7% calculated for monitoring ending FY19Q3, to 5%.

PCG and L&E observe that even if the actual revenue were increased to the benchmark, as recommended, this measure indicates that the revenue would still not be sufficient to cover costs. This gap between benchmark revenue and actual cost is 4%.

Average Gain/(Loss) Per Case Per Year, FY18 -FY19	
Actual Average Revenue Per Case Per Year	$18,439
Actual Average Cost Per Case Per Year	$24,397
Actual Average Gain/(Loss) Per Case Per Year	($5,958)

This measure shows that the WMPC is observing significant losses on average for completed cases, as defined by the 'Full Case Subset'. The results of this measure are a major concern and signals that the negative fund balance is expected to get worse if status quo is maintained.

Measure #7 – Average Gain/(Loss) by Quarters in Care

Quarters in Care[20]	Completed Case?	Total Count	Legacy Count	Average Cost	Average Revenue	Average Gain/(Loss)
1	Y	184	93	$6,776	$19,289	$12,513
2	Y	127	91	$13,216	$20,403	$7,187
3	Y	87	65	$23,932	$28,289	$4,356
4	Y	125	98	$33,580	$31,467	($2,112)
5	Y	110	86	$35,054	$42,153	$7,098
6	Y	79	47	$55,698	$48,879	($6,819)
7	Y	85	72	$57,390	$53,948	($3,442)
8	Y	46	45	$70,209	$52,187	($18,023)
8, Total LOS >2 yrs.	N	218	218	$120,196	$50,955	($69,241)
Total		1061	815	$48,795	$36,878	**($11,917)**[21]

This measure is calculated using the 'Full Case Subset' as defined in the initial case rate development, which is all completed cases and all incomplete cases that have a length of stay greater than 2 years at the time of measure. This subset was used for this measure because revenue is front-loaded and costs are not usually uniformly distributed across the length of the case. The intent of this measure is to reflect the average gain or loss over a whole case in order to best monitor the adequacy of the case rate payments.

[20] Quarters in Care during the time period FY18Q1-FY19Q3.
[21] ($11,917)/2 years of the case rate pilot = ($5,958) as shown in measure #6.

This measure shows that the losses are skewed heavily towards longer cases and legacy cases. The results of this measure alone are not a concern, as the case rate was generally designed for losses to occur for longer cases. However, in conjunction with measure #6, the results of this measure are a major concern and signals that the negative fund balance is expected to get worse if status quo is maintained. PCG and L&E have presented retrospective and prospective case rate adjustments to address the revenue shortfall (as documented in addendum #2 to the initial case rate methodology report). The adjustments were presented after it was discovered that 1) some expenses were inadvertently excluded from the original case rate development and 2) FY17 costs, which were not included in the initial case rate development, were significantly higher than historical expenditures.

PCG and L&E observe that the magnitude of the average loss has increased from ($9,487) calculated for monitoring ending FY19Q2 and ($10,284) calculated for monitoring ending FY19Q3, to ($11,917).

Measure #8 – Percentage of High- and Low-Cost Outliers

Percentage of High Cost Outliers in Care[22]	
Actual Percentage	3.54%
Benchmark Percentage	1.19%
Actual-to-Benchmark Variance	+2.35%

Percentage of Low Cost Outliers in Care[23]	
Actual Percentage	0.18%
Benchmark Percentage	1.16%
Actual-to-Benchmark Variance	-0.98%

The percentage of high-cost outliers is approximately 2.4% higher than the historical benchmark and the percentage of low-cost outliers is approximately 1.0% lower than the historical benchmark. There are no concerns brought forth by this measure alone; however, in conjunction with measures #6 and #7, it is apparent that the negative fund balance is expected to get worse if status quo is maintained, which is a major concern.

L&E notes that outlier benchmark criteria were determined based on case-by-case costs that were largely estimated due to only having actual case-by-case historical cost data within only approximately 38% of the cost data used to develop the case rate. Thus, we do not have an accurate or exact picture of true historical outliers. As we monitor the emerging case-by-case data from the case rate pilot, we can get a better understanding of the outlier categories and the

[22] High Outlier criteria was determined to be $300K for one case. For cases still in care, outliers were flagged if they cost more than $32,328 per quarter in care. [$300K/2.32 benchmark average length of stay/4 quarters per year]

[23] Low Outlier criteria was determined to be $2K for one case. For cases still in care outliers were flagged if they cost more than $216 per quarter in care. [$2K/2.32 benchmark average length of stay/4 quarters per year]

characteristics of outlier cases. With enhanced knowledge, we may adjust our benchmark criteria and/or adjust our recommendation for how to fund the outlier cases.