The Cost Modeling Project:
An Analytical Tool for Child Welfare Agencies to Assess the Impact of Delinking

AMERICAN PUBLIC HUMAN SERVICES ASSOCIATION

NATIONAL ASSOCIATION OF PUBLIC CHILD WELFARE ADMINISTRATORS

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Casey Family Programs is the nation's largest operating foundation focused entirely on foster care and improving the child welfare system. Founded in 1966, Casey works to provide and improve—and ultimately prevent the need for—foster care in the United States. As champions for change, we are committed to our 2020 Strategy for America's Children—to safely reduce the number of children in foster care and improve the lives of those who remain in care. Since 1966, Casey has invested more than $1.6 billion in programs and services to benefit children and families in the child welfare system. Over the next decade, we will invest at least $1 billion more to fulfill the promise of our 2020 Strategy.

The Cost Modeling Project:
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Executive Summary

The child welfare system has long assumed responsibility to serve all children they have found to be in need of services regardless of the source of funding. Likewise, the federal government's mandate that all children in foster care be afforded equal protection and have equal access to service is appropriate and fair. However, limiting the federal government's participation in maintaining such a system to only those children who were "needy" by the determination of whether their family's income in 1996 (not adjusted for inflation) would have made them eligible for Aid to Families with Dependent Children is not.

In passing the Foster Care and Adoption Assistance Amendment to the Social Security Act (known as Title IV-E), Congress envisioned that the cost of the foster care system would be shared between the federal government and states with the federal government assisting states by offsetting the cost of caring for financially needy children. In the decades since the original act was passed, the income trajectory of families in the nation has risen considerably, in part due to adjustments in the minimum wage. However, the criteria in place for determining a child's financial assistance for federal support in foster care remain mired in the 1996 income standard that bears little relevance to the income of families today. As a result, fewer children in the foster care system are eligible for federal financial support from IV-E.

Efforts to address the decreasing federal support in the Title IV-E program has evolved as interim steps, such as child welfare demonstration waivers and the adoption incentive program. However, a comprehensive approach is needed to ensure a solid fiscal base for public child welfare to meet federal mandates for outcomes of safety, permanency, and well-being, and to better align services and interventions that holistically serve children and families.

Child advocacy organizations and public child welfare agencies have long recommended that federal support should, as stated in a Casey Family Programs report, "… be linked to meeting a child's needs and not to the income of the family from which the child was removed." There is strong recognition among these groups that building congressional interest and support on comprehensive finance reform requires an examination of the potential financial impact on federal, state, and local budgets when Title IV-E eligibility is delinked from AFDC requirements. To meet the need for additional information, APHSA (American Public Human Services Association), its affiliate, NAPCWA (National Association of Public Child Welfare Administrators), and Casey Family Programs began The Cost Modeling Project to gather and analyze fiscal data in various delinking scenarios to understand how delinking would affect child welfare agencies.

The Cost Modeling Project report reflects an analysis of the application of specific assumptions about revenue neutrality related to various delinking scenarios for five jurisdictions based on each jurisdiction's unique experience and historical data. The report, focused only on delinking as one of many possible financial alignment strategies, also provides a template and instructions that states and localities can use to conduct an assessment of the impact of delinking for their state or locality.

The exacting nature of federal claiming necessitates finely nuanced constructs as evidenced by the specific scenarios outlined in the report. However, important systemic observations gleaned from the constructs include:

- The number of children eligible for federal support in the test site jurisdictions would have increased between 16 percent and 35 percent if income was removed as a criterion for eligibility. Given that the test sites represent a cross-section of the country, it is plausible that this experience would be similar in other jurisdictions, even though jurisdictions have differing abilities to capture the requisite data.

- Significant variances in historical expense coupled with the use of averages to calculate potential future rates of reimbursement may over-advantage jurisdictions with declining expense while disadvantaging those experiencing increasing expense.
- A claiming structure based on eligibility without regard to income in a federal revenue neutral environment will require establishing unique reimbursement rates for maintenance, administrative costs and training. Maintenance claims are constructed based on the expense associated with providing a particular eligible child room and board, which is not the same for every child; while administrative and training claiming is based on allotting a proportional amount of expense to every eligible child.
- A final point is that any jurisdiction undertaking its own analysis must consider the impact recent implementation of a IV-E Waiver and/or Medicaid managed care may have on future expenditures in their foster care system. By its nature, this project focused only on scenarios for delinking related to foster care maintenance cost; waiver states may be limited in their use of trend analysis for projection of expense in out-years. To the extent that Medicaid managed care offers increased opportunity for children to receive community-based mental health services, the types of placement and lengths of stay in foster care may be affected.

Foster care maintenance cost—Federal Title IV-E funds for eligible children for payments to cover the cost of (and the cost of providing) food, clothing, shelter, and other daily living necessities.

About the Cost Modeling Initiative

The child welfare system has long assumed responsibility to serve all children they have found to be in need of services, regardless of the source of funding, with Congress primarily funding foster care, but not other essential components of the child welfare system. State and local agencies continue to provide more than half of total child welfare expenditures (with state dollars accounting for 45 percent, and local dollars for 12 percent)[1] to carry out this responsibility. While research and best practice indicate that prevention and early intervention programs and services are critical in order to positively impact children, federal funding does not support these efforts to the extent necessary to achieve the desired outcomes. The history of efforts to address decreasing federal support for the Title IV-E program through comprehensive finance reform has evolved through interim steps, such as the child welfare demonstration waivers and the adoption incentive program, taken to expand child welfare's ability to align funding and policies. However, a comprehensive approach is needed to ensure a solid fiscal base for public child welfare to meet federal mandates and better align services and interventions that holistically serve children and families.

With an eye toward *comprehensive* reform, the American Public Human Services Association (APHSA), through its affiliate, the National Association of Public Child Welfare Administrators (NAPCWA), developed a proposal for child welfare finance reform. The 2009 NAPCWA Proposal addressed the concern that federal funding through Title IV-E primarily supported out-of-home care for children who had come to the attention of the child welfare system and focused on three overarching principles:

- The need to expand covered services by allowing states to use Title IV-E funds for services other than foster care;
- The need to expand covered populations by delinking IV-E eligibility from 1996 AFDC standards; and
- The need to maintain federal investment in Title IV-E and IV-B.

The 2009 NAPCWA Proposal, in consideration of a cost-neutral environment, included recommendations for eliminating the 1996 income eligibility requirement, referred to as delinking; establishing a new FFP; and created a revenue baseline below which states would not fall. In addition to APHSA and NAPCWA, other national organizations advancing sound policy and effective practices have made similar recommendations—particularly those related to a delink strategy. For example, Casey Family Programs issued a technical advice and assistance report that stated "federal support should be linked to meeting a child's needs and not to the income of the family from which the child was removed." The Child Welfare League of America proposed delinking eligibility for Title IV-E foster care and kinship care so that children in these programs would be eligible to receive federal assistance. In addition, the Partnership for Protecting Children to Improve Outcomes for Vulnerable Children and Families—a Washington, DC–based coalition of advocacy and stakeholder groups—agreed that activities and assistance provided under Title IV-E should be allowed without regard to AFDC eligibility. There is strong recognition among these and other groups that building congressional interest and support for comprehensive finance reform requires an examination of the potential financial impact on federal, state, and local budgets when Title IV-E eligibility is delinked from AFDC requirements.

To meet the need for additional information, APHSA, NAPCWA, and Casey Family Programs began The Cost Modeling Project. This project focuses on only *one* aspect of comprehensive finance reform—eliminating income eligibility as a requirement for children to be eligible for IV-E funding. The Cost Modeling Project is designed to gather and analyze fiscal data for various delinking scenarios to understand how delinking would affect child welfare agencies. The report applies specific assumptions for delinking to five agencies using their actual data over a specified period of time. The report also provides a template and instructions that states and localities can use to conduct their own assessment of the impact of delinking for their state or locality.

[1] Kerry DeVooght, et al., *Federal, State and Local Spending to Address Child Abuse and Neglect in State Fiscal Years 2008 and 2010,* (June 2012), p.5

Platform for Eligibility Reform

The face of foster care has changed over the decades; the protections and safeguards afforded children in care have changed, largely through the wisdom of the federal government. However, the fiscal policies supporting the children and those changes essentially have remained unchanged. The genesis of today's foster care system was the Social Security Act of 1935, born out of the Great Depression when poverty was so overwhelming that families could not provide the basic necessities of food, clothing, and shelter for their children. Three decades later, subsequent to the War on Poverty, the federal government mandated state participation in a foster care program for which federal assistance would be available. When the Foster Care and Adoption Assistance Amendment (to the Social Security Act) was passed in 1980, Title IV-E was created. Title IV-E maintained the concept of federal assistance for needy, i.e., impoverished, children in foster care, but mandated certain protections for all children in care so that foster care would not become their *de facto* permanent home. The decades since then have seen improvements in the foster care program as a result of federal requirements, such as the Chafee Independent Living Program and the Child and Family Services Review, as well as a broadened definition of the foster care placements that are eligible for federal reimbursement via the Fostering Connections to Success Act of 2008. While these actions rightfully pertained to all children in care, the financial reimbursement available to states for carrying out these mandates continues to be relegated only for those children who are removed from families that meet the, now archaic, 1996 Aid to Families with Dependent Children (pre-Welfare Reform) income/asset standards.

Compounding the impact of an outdated fiscal policy are the conditions under which children are removed from their families. Today, children are removed primarily because their safety is endangered, either because they have been assaulted or if there is a substantial risk of harm due to conditions in their home. Substance abuse by the parent/caregiver, domestic violence, and mental illness are primary contributing factors to child abuse and neglect. While income remains a contributing factor to the neglect of many children, these other conditions are not bound by income strata. No longer is foster care a living arrangement for the nation's poorest children; it is a necessary safe haven for children of all income levels whose parents are not able to care for them or manage their special needs.

The federal government's mandate that all children in foster care be afforded equal protection and have equal access to service is appropriate and fair. Limiting the federal government's participation in maintaining such a system to only those children who were "needy" by determining if their family's income in 1996 (not adjusted for inflation) would have made them eligible for Aid to Families with Dependent Children is not.

This income eligibility requirement is commonly referred to as the "AFDC look-back standard." As a result of this very strict requirement, many children in federal foster care and adoption assistance programs are ineligible to receive federal financial support for a wide range of benefits, services, and activities. States have also been forced to adhere to a standard that places tremendous stress on a system responsible for administering federal foster care and adoption assistance programs and providing services to those children most in need. This stress is manifested when states must maintain the income eligibility requirement that necessitates administrative activities and expenditures that could otherwise be focused on children.

Additionally, the time direct service staff spends procuring income information from the removal home could be redirected toward work with the child and family. In those states where dedicated staff is responsible for determining financial eligibility, as well as program standard eligibility, removing the income standard would allow a more directed focus on the system safeguards that enhance permanency, such as appropriate court orders and timely judicial reviews. Any increase in the number of children ineligible due to the outdated income standard increases the state's financial responsibility; yet the state must maintain the exacting federal program standards for all children in the system regardless of an individual child's financial eligibility.

Apart from the fact that applying a standard that is now 16 years old makes little sense, most contend that federal eligibility should not be tied to the income of the parents and that federal support should be available to all children regardless of income. This is what's commonly known as delinking—particularly delinking income eligibility from Title IV-E Foster Care. In 2004, the Pew Commission on Children in Foster Care Report *(Fostering the Future: Safety, Permanency, and Well-Being for Children in Foster Care)* recommended that "*the federal government join states in paying for foster care for every child who needs this protection.*" This recommendation reflects a deeply held principle within the commission that every child who experiences abuse or neglect—not just every poor child—deserves the protection of federal *and* state governments.

In the APHSA *Pathways* Policy Brief, *Child Welfare Finance Reform,* the need to address the above recommendation and the overall need for comprehensive finance reform is noted. The brief states that comprehensive finance reform must align national policy priorities with the means to ensure that children receive the services and supports they need. By restructuring Title IV-E—the primary federal funding source for child welfare—and the other funding streams that support child welfare, better outcomes can be achieved and public funds can be used far more efficiently.

As advocates, stakeholders, and policymakers continue moving in the direction of comprehensive finance reform, it is important to note that Congress has recognized the need to address key principles that support finance reform. Although the AFDC look-back standard still applies to the federal foster care program, the Fostering Connections to Success and Increasing Adoptions Act of 2008 will have completely eliminated the AFDC look-back standard in the federal adoption assistance program by 2018.[2] Building on these and other efforts, this published report will present simulations on several delinking scenarios and an analysis of the impact on five agencies (see Appendices).

Introduction

The purpose of this report is to model multiple scenarios for delinking eligibility from family income. While certainly not the only component of a finance reform package, delinking has long been discussed as the prime variable for adjustment in child welfare financing reform with the foundation for that discussion being that the mandate to care and protect all children in foster care should carry the concomitant mandate to support the associated activities.

Foster care administrative cost—Costs related to case management and child placement services, training, data collection, and other administrative costs) of providing foster care to children.

Current Program Protections—Eligibility criteria include protections such as (1) income/asset tests, (2) judicial determinations related to reasons for the removal, and (3) placement in an eligible licensed setting.

While discussions have encompassed contemplating a complete overhaul of the Title IV-E program, including changes to administrative costs, training, information system cost and scope of applicability, in addition to eligibility for maintenance assistance, the fact that each component has specific reimbursement rates and parameters led to the decision to focus on the delinking component initially. Changing eligibility standards became paramount as that policy has the most significant impact on the basic needs of children in care.

The approach to this delinking model is based on the following assumptions:

- IV-E Foster Care Assistance would remain an open-ended entitlement
- Income would be disregarded as an eligibility factor
- Meeting judicial and casework protections would remain eligibility factors
- The consideration of income as a factor of eligibility would be removed; however, states would still be required to perform an administrative determination that the specific foster care program protections required by federal regulation are met for each case.

FFP—Federal government's share of approved expenditures incurred by an authorized state, locality, or tribe

FMAP—Percentage rate used to determine the rate of federal matching funds allocated annually to certain medical and social service programs.

[2] Beginning October 1, 2009, newly adopted children who have been in care for at least five consecutive years or who are 16 or older will be IV-E eligible, as long as they meet their state's definition of special needs and other eligibility requirements.

- A first-year, cost-neutral baseline would be established by creating a new state-specific Federal Financial Participation (FFP) rate to replace the current practice of reimbursing foster care maintenance at the state's Federal Medical Assistance Percentage (FMAP).
- A mechanism would be created to adjust the FFP at periodic intervals.

Methodology/Approach

Claiming in an environment where children are eligible without regard to income requires the creation of a state specific FFP rate different than FMAP in order to achieve federal revenue neutrality. Establishing a baseline using actual expenditure and revenue data is the first step in that calculation. From that baseline, which is modeled using both averages and most recently completed year data, it is possible to determine a FFP(s) that would take into account the additional number of children who would be eligible without regard to income, yet maintain a revenue-neutral environment.

Penetration Rate—the percentage of children in out-of-home placements for which a state receives Title IV-E reimbursement from the federal government for foster care maintenance payments

To the extent available, five years of historical expenditure, revenue and eligibility data from five jurisdictions were used to test the proposed model. The jurisdictions that were selected represent regional diversity (East, Northeast, Midwest, South, and West), state and locally administered jurisdictions, foster care population diversity (ranging from several hundred to several thousand), urban and rural environments, low to high penetration rates and low to high FMAP rates (the latter two items being factors in the current reimbursement structure).

A central tenet for this modeling effort was the capacity to count and include those children currently ineligible for reimbursement due solely to family income. The test site jurisdictions experienced differing abilities to make that determination; resulting in some being able to provide five years data and others only able to provide data from the most recent year(s). In their determinations, jurisdictions excluded from eligibility those children whose cases did not meet the program protections that are conditions for federal assistance.

There are a number of factors and considerations in projecting IV-E revenue in a model proposing delinking eligibility from the 1996 AFDC standard, beginning with the current claiming structure and moving to tests of the scenarios to create a new rate of Federal Financial Participation for reimbursement of foster care maintenance expense.

The included template (Appendix B) lays out the items and method used in calculating both claims under the current and the modeled structure. An explanation of each of the relevant variables follows.

Current Claiming Structure

Allowable Expense—maintenance, administration and/or training cost permissible to be claimed for federal reimbursement as a result of child eligibility, placement criteria, and program standards being met.

In the current environment, IV-E claiming for maintenance is a factor of three variables: allowable expense, penetration rate (eligibility rate), and FMAP. Claims are constructed on an individual-child basis, meaning the particular amount of allowable cost associated with a particular eligible child, is claimed at the rate of federal reimbursement, which currently is the state's FMAP rate. However, modeling using aggregate eligibility and cost experience of the jurisdiction yields reliable approximations. The extent to which there is change in any one of those variables influences the amount of the federal reimbursement (revenue) to the state/jurisdiction. IV-E claiming for administrative cost and training cost is influenced by the allowable expense and the penetration rate, but each of those components is reimbursed at set universal rates (see below).

In its simplest form, the formula for claiming is:

Claiming Structure

Allowable expenses for eligible child *x* FMAP = federal reimbursement

Claiming Structure Used in Modeling

All allowable expenses *x* penetration rate (all eligible children) *x* FMAP = federal revenue

However, there are qualifiers for each of those variables.

- **Allowable expenses**—Maintenance includes expense related to room and board (food, clothing, shelter, school necessities) and watchful oversight of the children, which are all activities generally considered within the purview of a parent or guardian. However, not all room and board expense related to foster care qualifies for reimbursement under Title IV-E. For example, those jurisdictions with approved Emergency Assistance Plans (under the pre-TANF AFDC program) may cover room and board expense for placements meeting the requisite criteria.

In addition, there may be children in foster care who are categorically eligible for IV-E assistance, but the cost associated with their placement does not meet the definition of an allowable expense. In some instances, children may be placed in the homes of relatives that are not licensed as foster homes. In those cases, placement expense is not allowable for IV-E reimbursement. Also, the expense associated with permanently unlicensed placements (as opposed to those that will become licensed according to the state's policies) and detention centers are not allowable for IV-E reimbursement. Title IV-E maintenance does not include behavioral or therapeutic services provided to children in foster care.

Administrative expense refers to the cost of staff engaged in activities related to the foster care program as well as operating expense for those staff. Because many activities of the staff of a child welfare agency are not related to foster care, e.g., child protective service investigations, protective service work in the family's home, Title IV-E only reimburses the portion of the expense attributable to eligible children in foster care.

Likewise, child welfare agencies provide an array of training, not all of which is related to the foster care program. Jurisdictions must determine the portion of their training cost that is related to the provision of the foster care program in order to claim IV-E reimbursement for that particular expense.

- **Penetration rate *(also known as the eligibility rate)*—**the percentage of children in foster care eligible for IV-E assistance. It is affected by two categories of variables: the income of the parent/specified relative of removal and the meeting of prescribed protections, such as determination of reasonable efforts, or timely permanency hearings.

Income of the parent/specified relative is the primary test applied in the initial eligibility determination. In many instances, if the family income is greater than the state's standard of need (1996 AFDC standard), the eligibility determination process stops and there is no further eligibility exploration of whether the case meets the prescribed protections noted above. Determination of continued eligibility occurs annually at which time failure to meet/maintain the programmatic protections becomes the primary reason for a child being ruled ineligible.

- **FMAP—**the Federal Medical Assistance Percentage is a state-specific rate, adjusted annually to reflect the state's per capita income in relation to the national benchmark. No state may have an FMAP that is less than 50 percent; the highest possible FMAP is 83 percent. As noted previously, maintenance is the only IV-E component reimbursed at a state-specific rate. Title IV-E foster care administration, training, and information systems are reimbursed at set national rates.

Other Considerations

- **Adjustments to claims—**Any historical data used for future fiscal projections must reflect any adjustments to expense and/or penetration rate in the time period for which the claim was made even when notice of those adjustments may be many quarters/years removed from the initial claim.
- **Non-eligibles due to income —** As noted, children are ineligible for IV-E assistance either because of income or as a result of prescribed protections not being met. In a delinked model, all children in care would be considered candidates for eligibility with only those whose cases not meeting the protections being ruled ineligible. (Keeping in mind, that individual eligibility does not mean that expense associated with the placement is allowable for claiming.) States/localities/tribes will need to ascertain the number of children in care who would otherwise be eligible if the income standard was removed prior to assessing the impact of delinking.
- **ARRA funding**—IV-E maintenance reimbursement for FFY 2009, 2010, and a portion of 2011 may include enhanced FMAP rates due to ARRA, necessitating the proper adjustment if used in a calculation for future projections when ARRA will not be present.

> ***Adjustments to claims—***a change in the amount of federal revenue associated with an allowable expense submission.

> ***American Recovery and Reinvestment Act (ARRA)—***The American Recovery and Reinvestment Act increased the annually calculated FMAP rate, thus increasing the IV-E maintenance reimbursement

Proposed Claiming Structure

The definitions and qualifiers for maintenance, administrative cost and training in the proposed claiming structure are the same as those in the current claiming structure (described above). The difference is the creation of a new penetration, i.e., eligibility rate, which is calculated by adding both those children eligible under today's income rules plus those children who would otherwise be eligible (meaning all program protections are met) except for income. In order to create the new penetration rate, jurisdictions must be able to identify the number of children who would have met eligibility requirements except for income (see Appendix B for Tool).

Findings

The desired outcome was that by modeling the assumptions with expenditure and statistical data from jurisdictions conclusions could be drawn about the feasibility and construct of a state specific Federal Financial Participation (FFP) rate for Title IV-E that would maintain a relatively cost neutral position for the federal government. The following narrative describes the scenarios tested and the ensuing results from the test site jurisdictions.

Delinking Scenarios

<table>
<tr><td rowspan="4">Jurisdiction A</td><td>SCENARIO 1—Create a baseline based on historical multi-year IV-E eligibility, expense and revenue experience. Construct a new FFP based on the average of the most recent five years of foster care (FC) expense, the average penetration rate for those same five years and resulting in the average IV-E federal revenue for those same five years.
• Finding: Expense remained fairly constant over five years (2.5 percent decrease), but the IV-E revenue dropped more than 20 percent due to a 12 percent decline in eligibility. The resulting new FFP would be a 0.0006 percent increase over the average FMAP.</td></tr>
<tr><td>SCENARIO 2—Create a baseline applying historical multi-year IV-E eligibility to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on the average penetration rate for the most recent five years, the FC expense of the most recently completed year and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue neutral baseline).
• Finding: Due to the five-year average penetration rate being 4 percent higher than the rate in the most recently completed year, keeping federal revenue constant requires a FFP rate that is 5.72 percent less than the corresponding year’s FMAP.</td></tr>
<tr><td>SCENARIO 3—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility if income were disregarded to historical multi-year expense and revenue experience. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the average FC expense for those same five years and resulting in the average IV-E federal revenue of those same five years.
• Finding: Based on a two-year delinked penetration rate, the eligible population would have increased by 16.75 percent. Using average expense and average revenue, the new FFP would be 15 percent less than the average FMAP.</td></tr>
<tr><td>SCENARIO 4—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility based on income being disregarded to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the FC expense for the most recently completed year and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue neutral baseline).
• Finding: Using the two-year delinked rate (see above), maintaining a revenue neutral base requires FFP 12.50 percent less than FMAP.</td></tr>
</table>

Jurisdiction B	**SCENARIO 1—Create a baseline based on historical multi-year IV-E eligibility, expense and revenue experience.** Construct a new FFP based on the average of the most recent five years FC expense, the average penetration rate for those same five years and resulting in the average IV-E federal revenue for those same five years. • ***Finding:*** Both the expense base and federal revenue dropped precipitously over the span of the five years due to a number of variables (decrease in population, policy/practice changes), with year five seeing an increase over year 4. Eligibility remained fairly constant (no more than a 3 percent variation over the time period). The resulting new FFP would be 12.5 percent less than the average FMAP.
	SCENARIO 2—Create a baseline applying historical multi-year IV-E eligibility to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on the average penetration rate for the most recent five years, the FC expense of the most recently completed year, and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue neutral baseline). • ***Finding:*** A relatively constant five-year penetration rate results in a slightly decreased (0.0018 percent) FFP in order to maintain the federal revenue.
	SCENARIO 3—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility if income were disregarded to historical multi-year expense and revenue experience. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the average FC expense for those same five years and resulting in the average IV-E federal revenue of those same five years. • ***Finding***: Over the five-year period, Jurisdiction B would have seen the eligible population grow by an average of 22 percent. This growth coupled with the wide fluctuation in expense and revenue over the five-year period results in a FFP that is 15.5 percent less than the average FMAP.
	SCENARIO 4—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility based on income being disregarded to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the FC expense for the most recently completed year, and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue-neutral baseline). • ***Finding:*** Due to the significant growth in the eligible population (22 percent reference in Scenario 3), maintaining a neutral revenue base would require FFP that is 17.5 percent less than the corresponding FMAP.
	SCENARIO 5—Create a baseline based on the most current fiscal year's expense and revenue experience along with what would have been that year's IV-E eligibility rate if income were disregarded. Construct a new FFP based on the most recent year FC expense, what would have been the penetration rate if income were disregarded (delinked), and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue-neutral baseline). • ***Finding:*** In the most recently completed year, adding the population that would have been eligible, except for income, increases the penetration rate by nearly 30 percent. To maintain a constant revenue base requires FFP that is 20.86 percent less than FMAP.

Jurisdiction C	**SCENARIO 1—Create a baseline based on historical multi-year IV-E eligibility, expense and revenue experience.** Construct a new FFP based on the average of the most recent five years FC expense, the average penetration rate for those same five years and resulting in the average IV-E federal revenue for those same five years. • ***Finding:*** Over four years, the expense declined by 14 percent while the eligibility rate decreased by 7 percent; however, the federal revenue declined by 24 percent. The resulting new FFP would be an increase of 0.0031 percent over the average FMAP.
	SCENARIO 2—Create a baseline applying historical multi-year IV-E eligibility to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on the average penetration rate for the most recent five years, the FC expense of the most recently completed year, and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue-neutral baseline). • ***Finding:*** Due to an average penetration rate 2.5 percent higher than the rate in the most recently completed year, maintaining the same federal revenue of the most recent year would require FFP of 3.87 percent less than the corresponding FMAP.
	SCENARIO 3—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility if income were disregarded to historical multi-year expense and revenue experience. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the average FC expense for those same five years, and resulting in the average IV-E federal revenue of those same five years. • ***Finding:*** Delinked data not available
	SCENARIO 4—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility based on income being disregarded to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the FC expense for the most recently completed year, and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue-neutral baseline). • ***Finding:*** Delinked data not available.
	SCENARIO 5—Create a baseline based on the most current fiscal year's expense and revenue experience along with what would have been that year's IV-E eligibility rate if income were disregarded. Construct a new FFP based on the most recent year FC expense, what would have been the penetration rate if income were disregarded (delinked), and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue-neutral baseline). • ***Finding***: Delinked data not available.

Jurisdiction D	**SCENARIO 1—Create a baseline based on historical multi-year IV-E eligibility, expense and revenue experience.** Construct a new FFP based on the average of the most recent five years' FC expense, the average penetration rate for those same five years and resulting in the average IV-E federal revenue for those same five years. • ***Finding:*** Over the five years, expenses increased by 7 percent while the rate of IV-E eligible children decreased by 8 percent. The increased expense contributed to an increase in federal revenue of 12 percent. The resulting new FFP would be nearly identical to the average FMAP, increasing by only 0.0004 percent.
	SCENARIO 2—Create a baseline applying historical multi-year IV-E eligibility to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on the average penetration rate for the most recent five years, the FC expense of the most recently completed year and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue neutral baseline). • ***Finding:*** While the average penetration rate is higher than the current year's rate, an increase in expense and revenue results in a FFP that is nearly identical to FMAP (0.001 increase).
	SCENARIO 3—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility if income were disregarded to historical multi-year expense and revenue experience. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the average FC expense for those same five years, and resulting in the average IV-E federal revenue of those same five years. • ***Finding:*** The average increase in eligible population would have been 13 percent. Using average expense and revenue (although the last two years have evidenced increases in both), the FFP would be 4 percent less than FMAP.
	SCENARIO 4—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility based on income being disregarded to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the FC expense for the most recently completed year, and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue-neutral baseline). • ***Finding:*** Due to expense and revenue in the most recently completed year being greater than the average expense (Scenario 4), a newly constructed FFP would be 4 percent less than the corresponding FMAP.
	SCENARIO 5—Create a baseline based on the most current fiscal year's expense and revenue experience along with what would have been that year's IV-E eligibility rate if income were disregarded. Construct a new FFP based on the most recent year FC expense, what would have been the penetration rate if income were disregarded (delinked), and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue-neutral baseline). • ***Finding:*** In the most recently completed year, adding the population who would have been eligible except for income increases the penetration rate by nearly 13 percent. To maintain a constant revenue base requires FFP that is 2.25 percent less than FMAP.

Jurisdiction E	**SCENARIO 1—Create a baseline based on historical multi-year IV-E eligibility, expense, and revenue experience.** Construct a new FFP based on the average of the most recent five years' FC expense, the average penetration rate for those same five years, and resulting in the average IV-E federal revenue for those same five years. • ***Finding:*** Eligibility rates varied significantly over the five-year period; however, the most recent year's rate is approximately 1.5 percent greater than the first year. Both expense and federal revenue has declined by approximately 24 percent. The resulting new FFP would be a 0.0067 percent decrease over the average FMAP.
	SCENARIO 2—Create a baseline applying historical multi-year IV-E eligibility to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on the average penetration rate for the most recent five years, the FC expense of the most recently completed year, and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue-neutral baseline). • ***Finding:*** While the average penetration rate is lower than that of the most recently completed year, maintaining the most recent year's federal revenue would require a FFP 2.63 percent greater than FMAP.
	SCENARIO 3—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility if income were disregarded to historical multi-year expense and revenue experience. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the average FC expense for those same five years, and resulting in the average IV-E federal revenue of those same five years. • ***Finding:*** This jurisdiction's eligible population would have increased by an average of 38 percent. Maintaining average revenue based on average expense would require decreasing FFP 15 percent from the FMAP.
	SCENARIO 4—Create a baseline applying (what would have been) multi-year expanded IV-E eligibility based on income being disregarded to the expense and revenue experience of the most recently completed fiscal year. Construct a new FFP based on an average of what would have been the penetration rate if income were disregarded (delinked) for each of the last five years, the FC expense for the most recently completed year, and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue neutral baseline). • ***Finding:*** The large increase in the eligible population (Scenario 3) would require FFP 16.9 percent less than FMAP to provide a revenue neutral baseline.
	SCENARIO 5—Create a baseline based on the most current fiscal year's expense and revenue experience along with what would have been that year's IV-E eligibility rate if income were disregarded. Construct a new FFP based on the most recent year FC expense, what would have been the penetration rate if income were disregarded (delinked), and resulting in the same amount of IV-E federal revenue as the most recently completed year (revenue neutral baseline). • ***Finding:*** In the most recently completed year, adding the population who would have been eligible except for income increases the penetration rate by nearly 35 percent. To maintain a constant revenue base requires FFP that is 17.65 percent less than FMAP.

Observations from the Findings

The test site jurisdictions reported that removing income as a criterion would have increased their rates of eligibility between 16 percent and 35 percent, demonstrating the extent to which the link to income standards adversely affects federal support for children who are abused, neglected, or otherwise unable to remain safely in their own homes.

1. Significant variances in historical expense, whether due to policy and practice changes, budget reductions, or organizational structure, coupled with the use of averages to determine future rates of reimbursement, may give more of an advantage to jurisdictions with declining expense, while those jurisdictions experiencing increasing expense in the current environment may be at a disadvantage.
2. Jurisdictions have differing abilities to retrospectively construct for multiple years what their eligibility rate would have been if income had been removed as a criterion. Jurisdictions will probably need to be provided with instruction about tracking this data item should it become central to construction of a new FFP.
3. Projections of out-year allowable expense are necessary to make the comparison between revenue that would be received under the current claiming structure and revenue that would be received under a structure based on a new FFP. Additionally, for those states entering into a waiver, this calculation may be difficult.
4. A claiming structure based on eligibility without regard to income in a federal revenue neutral environment will require unique reimbursement rates for maintenance, administrative cost, and training. Maintenance claims are constructed based on the expense associated with providing a particular eligible child room and board, which is not the same for every child. However, administrative and training claiming is based on allotting a proportional amount of expense to every eligible child.
5. For the most accurate calculation, application of the modeling tool should occur at the organizational unit that currently constructs the IV-E claim. For example, in county-administered states where the county constructs the IV-E claim based on the allowable expense for the eligible children under that county's jurisdiction, the tool should be completed by the county. In those situations, the county is filtering out unallowable expense and ineligible children prior to the claim being forwarded to the state for submission.

Summary

Clearly, the variations within and across the jurisdictions with regard to penetration rates, numbers of children in care (entries and exits), and variances in expense point out the need for test calculations to be performed by every jurisdiction in order to determine the ultimate impact of this model.

The fact that there are significant variations across jurisdictions, coupled with the presenting findings and observations, clearly indicates that finance reform must embrace the common factors across states, take into account the unique nuances experienced by states, and emerge with a comprehensive reform plan palatable to the federal budget that propels states forward in achieving permanency for children. Delinking eligibility is essential to that effort as is broadening the permissible use of Title IV-E funds.

APPENDIX A: Test Site Profiles

Jurisdiction A

Jurisdiction A—Southern/Rural

- State administered
- 6,400 children in foster care
- Low Penetration Rate
- High FMAP
- Average annual room/board expense per child—$11,200

Jurisdiction A is located in Southern section of the United States, with a significant rural population. The child welfare system is a state supervised state administered structure. In 2011, there were approximately 6,500 children in foster care. This number represents a 9 percent decrease in comparison to the number in out of home care in 2004. Site A reported that a little more than 40 percent of children in out of home placement were eligible for Title IV-E assistance. The implementation of Permanency Roundtables in the past three years has increased the number of children achieving permanency and exiting foster care.

Jurisdiction B

Jurisdiction B—Midwest/Rural

- County administered
- 4,100 children in foster care
- Med - Low Penetration Rate
- Low FMAP
- Average annual expense room/board per child—$14,200

Jurisdiction B is located in the Midwest section of the United States and includes a vast rural area. The child welfare system has a state-supervised, county-administered structure. The most recent data indicate a little more than 4,000 children in foster care and of this group, between 70–76 percent of lived in a home setting. In 2011, 80 percent of the jurisdiction's children were reunited with their birth parents, primary caregivers, or other relatives, or moved to a permanent home. In recent years, the site developed an approach to implement evidence based interventions in the system of care. The approach includes an evidence-based database, education for parents/caregivers and training and clinical consultation to mental health providers.

Jurisdiction C

Jurisdiction C – Northeast

- State administered
- 1,000 children in foster care
- Low penetration rate
- Low FMAP
- Average annual room/board expense per child—$18,300

Jurisdiction C is located in the Northeast section of the United States. The child welfare structure is state supervised and state administered. Today, the jurisdiction has 1,000 children in foster care, down from the 1,400 figure reported in 2006. The jurisdiction has more than 1,000 licensed foster homes to care for the children placed out of home. About 500 of these licensed homes are providing care to 70 percent of the out of home population. The site is part of a growing number of agencies implementing differential response (also called "alternative response" or dual track." The approach is most common in child protective service practice and creates a process to respond differently when allegations of abuse and neglect are reported.

Jurisdiction D

Jurisdiction D—Western/Urban

- County administered
- 51,500 children in foster care
- High Penetration Rate
- Low FMAP
- Average annual room/board expense per child—$20,600

Jurisdiction D is located in the Western part of the United States with highly urban centers. The child welfare system is state supervised, county administered and is home to roughly 13 percent of the total number of children and youth placed in out-of-home care. The system operates a number of evidence- based and promising approaches as part of its child welfare continuum. These include critical thinking in safety/risk assessment, structured decision-making, family engagement, intimate partner violence, and others. The structured decision-making approach provides a method for social workers to apply critical thinking skills and structured tools to guide decision-making on referral acceptance, response time assignment, safety, risk, and prioritization of family strengths and needs.

Jurisdiction E

Jurisdiction E is located in the Mid-Atlantic region and represents a highly urban community. The site has experienced a more than 50 percent reduction in the number of out-of-home placements. As of December 31, 2012, the site reported a total of approximately 2,700 children in out-of-home placement, of which a majority are with kin (extended family or close friends of their family). The site is recognized as a national leader in reforms and innovations to improve outcomes. National recognition has been noted for the advanced data integration across systems, increased adoptions through collaborative partnerships, mental health courts, and others.

Jurisdiction E—East (Mid-Atlantic/Urban)

- County administered
- 2,800 children in foster care
- Medium Penetration Rate
- Low FMAP
- Average annual room/board expense per child—$11,300

Key:

- **Penetration rate:** <50 percent = low, 50-60 percent = medium, 60 percent> = high
- **FMAP:** 50-59 percent = low, 60 percent and above = high

APPENDIX B: Template Assessment Tool

Current Claiming Structure ***(Note:*** *Five years of data are suggested for determining averages. Include ARRA reimbursed expense, but exclude ARRA enhanced FMAP by constructing what revenue would have been at ordinary FMAP. Apply any prior quarter adjustments to the fiscal year period in which the reimbursement claim was submitted.)*

1. Foster Care Maintenance	**FY 08**	**FY 09**	**FY 10**	**FY 11**	**FY 12**	**Projected FY 13**	**Projected FY 14**
1A. Total annual FC maintenance expense							
1B. Allowable maintenance expense (meaning expense for non-reimbursable placements, etc. has been deducted)							
1C. Penetration rate (average of the 4 quarters)							
1D. Expense claimed for IV-E reimbursement (B x C)							
1E. FMAP							
1F. Federal IV-E maintenance revenue (D x E)							
2. Foster Care Administration							
2A. Total annual FC administrative expense							
2B. Allowable administrative expense (meaning expense for any non-reimbursable activity has been deducted)							
1C. Penetration rate (average of the 4 quarters)							
1D. Expense claimed for IV-E reimbursement (B x C)							
1E. 50 percent FFP	0.5	0.5	0.5	0.5	0.5		0.5
1F. Federal IV-E maintenance revenue (D x E)							
3. Foster Care Training							
3A. Total annual FC training expense							
3B. Allowable training expense (meaning expense for any non-reimbursable activity has been deducted)							
3C. Penetration rate (average of the 4 quarters)							
3D. Expense claimed for IV-E reimbursement (B x C)							
3E. 75 percent FFP	0.75	0.75	0.75	0.75	0.75		0.75
3F. Federal IV-E maintenance revenue (D x E)							
Delinked Eligibility							
G. Number of children in care							
H. Children IV-E eligible							
I. percent IV-E eligible (same as penetration rate above)							
J. Number of children not eligible due to family income/assets							
K. percent of all children in care ineligible due to family income/assets (J/G)							
L. If delinked, new penetration rate (I + K)							

To arrive at new FFP and maintain revenue neutrality in a given year, for each Section (1, 2, and 3): Multiply allowable expense (B) by new penetration rate (L) which results in a new total for "expense claimed for IV-E reimbursement (D)." Divide annual IV-E revenue (F) by new allowable expense (D) to arrive at new FFP for out-year claims.

Appendix C

Title IV-E Foster Care Definitions

Allowable Expense—Title IV-E maintenance, administrative, or training costs that may be claimed on behalf of eligible foster care candidates and necessary for the administration of the foster care program. These include pre-placement administrative functions, preparation of reports to the court and participation in court proceedings for judicial determinations; referral to services; placement of the child; case management and supervision; costs related to data collection and reporting.

ARRA Funding—The American Recovery and Reinvestment Act (P.L. 111-5, as amended by P.L. 111-226) increased the annually calculated FMAP rate [increasing the IV-E maintenance reimbursement for FFY 2009, 2010 and a portion of 2011] for Title IV-E purposes. In 2009, ARRA enhanced FMAP due to ARRA were increased by 6.2 percentage points in all states. The level of additional support provided decreased to 3.2 percentage points for the second quarter of FY 2011 and to 1.2 percentage points during the third quarter of FY 2011. Calculating future projections necessitates adjusting revenue accordingly.

Adjustments to Claims—A change in the amount of federal revenue associated with an allowable expense submission. Adjustments typically occur, but may not be limited to, the result of audits or data refinements. Adjustments may be made quarters/years removed from the initial claim.

Federal financial participation—The federal government's share of approved expenditures incurred by an authorized state, local, tribal, or other government sponsored entity.

FMAP—The Federal Medical Assistance Percentage is the percentage rate used to determine the federal matching funds rate allocated annually to certain medical and social service programs. The FMAP is the portion of each eligible foster care maintenance payment that is reimbursed by the federal government, is a state specific rate, and is adjusted annually to reflect the state's per capita income in relation to the national benchmark. No state may have an FMAP less than 50 percent while the highest possible FMAP is 83 percent.

Foster Care Administrative Cost—Costs related to case management and child placement services, training, data collection, and other administrative costs) of providing foster care to children.

Foster Care Maintenance Cost—Federal Title IV-E funds for eligible children for payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, reasonable travel to the child's home for visitation, and reasonable travel for the child to remain in the school in which the child is enrolled at the time of placement.

Penetration Rate—The Title IV-E Foster Care Penetration Rate represents the percentage of children in out-of-home placements for which a state receives Title IV-E reimbursement from the federal government for foster care maintenance payments.

Program Protections—The eligibility criteria required for federal foster care reimbursement for a child in foster care. Protections include (1) meet income/asset tests and family structure rules in the home from which he/she was removed; (2) specific judicial determinations made related to reasons for the removal and other aspects of his/her removal and placement; and (3) placement in an eligible licensed setting with an eligible provider(s).