

THE GROUP HOME RATE-SETTING SYSTEM:

A Brief Description of the Current AFDC-Foster Care Rate-setting System for Group Homes

The current foster care rate-setting system for group homes was created in 1989 by the enactment of SB 370 [Chapter 1294, Statutes of 1989] and was initially implemented on July 1, 1990, for the 1990-91 fiscal year. In California law, the term group home is used generically to refer to congregate care settings for children and youth. No distinction is made between congregate care facilities that function in lieu of foster family care and residential treatment programs that provide integrated treatment services.

Activities funded by the AFDC-Foster Care Program: "Allowable Costs"

- **Includes care and supervision, and social work:** Foster care providers are paid a "per child per month" rate in return for the care and supervision of foster children placed with them:
 1. Care and supervision includes food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation.
 2. For a child placed in a group home, care and supervision also includes reasonable administration and operational activities needed to provide the aforementioned items.
 3. Although it is not an "allowable" activity funded by the federal Title IV-E foster care program, California has also chosen to include social work services as an allowable activity in the AFDC-FC rates that it establishes for group homes, paying these costs with State and county funds.
- **Excludes all other services and support:** The AFDC-FC rate does not include funding for other non-allowable services that may be needed by a child, such as medical/dental, educational, mental health treatment, substance abuse treatment, etc. Nor does it include funding for the group home social worker to work with the child's family to achieve reunification or to work to find another permanent living situation for the child (e.g. adoption, guardianship, extended family). In theory, other public funding streams are available to pay for these services which fall outside the AFDC-FC definition of "allowable;" e.g., MediCal for medical costs, child welfare services for family reunification.

Rate Classification Levels

- **14 RCLs:** Under the current rate-setting system, all group home programs are placed into one of 14 Rate Classification Levels (RCLs) using a point system designed to reflect the level of care and services they provide. In short, the RCL point system measures each program's staff-to-child ratio, weighted by the experience, education, training, and professional qualifications of the child care and social work staff.
- **1 standard rate for each RCL:** All group homes in the same RCL are paid the same "standard rate." The standard rates for the 14 RCLs comprise the "Schedule of Standard Rates" or the "Rates Schedule."

- **Each RCL based on paid staffing hours:** The RCL point system measures the number of “paid/awake” hours worked per month by the program’s child care and social work staff and their first-line supervisors.
 1. These hours are then weighted to reflect the experience, formal education, and ongoing training of the child care staff and the qualifications of the social work and mental health professionals.
 2. These “weighted hours” are then divided by 90% of the program’s licensed capacity to compute the program’s RCL points. This determines the program’s RCL and its AFDC-FC rate.
 3. The point system also counts the number of hours of mental health treatment services received by the children in the program, even though these services are not funded by the AFDC-FC rate. When the RCL system was designed, it was believed that the amount of mental health treatment received by the child in a group home program was an “indirect” indicator of the “allowable” foster care costs that the program would incur.

- **RCLs classify programs for rate-setting purposes only:** The RCL point system is designed to classify group home programs for rate-setting purposes only. It is based on the premise that programs providing similar levels of care and services (as measured by the intensity of their staffing patterns) should have similar costs and therefore should be paid the same rate.

However, programs in the same RCL may provide different types of care and services to different types of children; e.g. one program at RCL 10 may provide care and services to minor mothers and their infants, while another program at RCL 10 may serve juvenile sex offenders. Of course, the specific educational, experience, training, and other qualifications of the staff of these two programs would be different and would match the needs of the children they serve.

- **RCLs reflect number and qualifications of staff in programs:** Although the RCL point system was not designed to classify group home programs for placement purposes, it was assumed that county placing agencies, after assessing the needs of individual foster children, would place children with more emotional and/or behavioral problems in programs with higher RCLs, which would have, by definition, more staff with higher levels of experience, education, and training than programs at lower RCLs.
 1. In this general sense, there is a correlation in the design of the RCL point system between the level of the needs of individual foster children and the level of the AFDC-FC rate which will be paid to group homes for their care and supervision.
 2. There is an exception in the rate-setting system for programs providing the highest level of care and services at RCL 13 and RCL 14. These programs not only have to have staffing patterns that generate enough RCL points to be classified at RCL 13 or 14, they are required to accept for placement only children who have been determined to be seriously emotionally disturbed (SED) and who have been found by a county Interagency Placement Committee (IPC) in need of the level of care and services provided by an RCL 13 or 14 program. The membership of the IPC must include, at a minimum, a representative from the county placing agency (probation or social services) and a mental health professional from the county department of mental health.

Schedule of Standard Rates

- **3 cost categories:** The standard rate for each RCL is composed of three cost categories:
 1. Wages and benefits for child care workers, social workers and their first-line supervisors;

2. Child maintenance costs, including shelter, buildings and equipment, food, transportation, utilities, and incidentals; &
 3. Administration.
- **Based on average costs:** The standard rates were originally intended to pay, on average, the actual allowable and reasonable costs for programs classified at each RCL.
 - **Rates developed using actual cost data:** The rates were developed using actual cost data for calendar year 1985 from a survey of group home programs.
 1. These costs were then adjusted to reflect the increase in the California Necessities Index (CNI) from 1985 until the original rates schedule was implemented in 1990.
 2. The amount included in the original rates schedule for the wages and benefits of child care workers, social workers, and their first-line supervisors was computed based on the premise that a new, entry-level child care worker would be paid an average of \$5.93 per hour, with the group home paying another 20.325% for payroll taxes and employee benefits, for a total of \$7.14 per hour.
 - **System assumed annual COLAs and periodic reviews to maintain adequacy:** When the system was designed and implemented, it was anticipated that the standard rates would receive an annual cost-of-living adjustment (COLA) based on the California Necessities Index (CNI) to reflect increasing costs in the general economy and that, on a periodic basis, the actual costs of group home programs and other factors would be analyzed to determine whether other adjustments needed to be made to ensure that the standard rates continued to reflect average actual costs.
 1. However, since its implementation in 1990, the Schedule of Standard Rates steadily and significantly has fallen behind the increase in the cost of doing business. As a result of the State fiscal crisis of the early 1990s, all AFDC-FC rates were frozen for seven years, from 1990-91 through 1997-98.
 2. Although AFDC-FC group home rates received CNI-based COLAs and additional increases from 1998-99 through 2001-02, they did not make up for the lack of COLAs during the prior seven years.
 3. With the onset of another State fiscal crisis, AFDC-FC rates were once again frozen for 2002-03, 2003-04, 2004-05. The proposed Governor's Budget for 2005-06 would freeze them for yet another year.
 - **Actual rates frozen 11 out of 15 years:** FY 2006-07 signals the 12th year in the 16 years since the current rate-setting was implemented in 1990 that the Schedule of Standard Rates for group homes has been frozen.
 1. During that time, the standard rates will have been increased by less than 27%, while the CNI will have increased by more than 47%.
 2. The amount included in the standard rates for the wages of an entry-level child care work has been \$7.83 per hour since July 1, 2001, and will remain at that level at least through June 30, 2007.

Group Homes Must be Nonprofit Corporations

- **California law requires group homes to be nonprofit:** When the current system was implemented in 1990, California permitted group homes receiving AFDC-FC funds to be operated as sole proprietorships, partnerships, for-profit corporations, or nonprofit corporations. However, federal requirements prohibited the use of Title IV-E foster care funds for placements made in any facility that was not operated on a nonprofit basis. Therefore,

federal financial participation (FFP) was not available to California to pay for the costs of some children placed in group homes, even though many of the children met all other Title IV-E eligibility requirements.

- **Federal law no longer requires nonprofit status:** In order to maximize federal Title IV-E funding, California required all group homes receiving AFDC-FC funds, starting in 1993, to be operated on a nonprofit basis. Ironically, the federal welfare reform legislation enacted in 1996 removed the requirement that prohibited the use of federal Title IV-E funds for placements made in any facility that was not operated on a nonprofit basis.

Capitated Nature of the Group Home Rate-Setting System

- **Based on average cost of typical program:** In theory, the standard rate for each RCL was intended to cover, **on average**, the full actual allowable and reasonable costs that a **typical** group home program would incur in order to provide the level of care and services associated with its RCL.
- **Some programs in some years will have higher or lower than average costs:** It was anticipated that in any particular year the actual costs of about half of the programs would be higher than the standard rate they received, and the actual costs of the other half would be lower.
- **Programs with higher costs have to make up difference:** Programs with costs higher than their RCL rate are required to find the additional funds from outside sources and/or to reduce their costs.
- **Programs with lower costs may keep difference:** Programs with lower costs than their RCL rate were allowed to keep and use any remaining foster care funds in any way they choose.
 1. When the system was originally implemented, this included the distribution of “profits” to shareholders in a for-profit corporation, the purchase of “unallowable” services, or the provision of a standard of care and service that was above the standard considered appropriate for AFDC-FC funding.
 2. Starting in 1993, the use of unexpended AFDC-FC funds became de facto limited to the charitable purposes of the nonprofit agency operating the group home.
 3. In 2003, regulations were adopted which defined and placed some restrictions on how the private nonprofit agencies operating group home programs are permitted to use unexpended AFDC-FC funds. They are now permitted to use these unexpended funds to provide any activities that serve or benefit California foster care children. This includes activities beyond those which fall under the narrow AFDC-FC definition of “allowable.” It also includes any current or former foster children, not just those in an agency’s group home program.
 4. However, these new regulations preclude the use of AFDC-FC funds for other purposes, such as providing child abuse prevention services or family preservation and support services primarily to families whose children are not in, and have not been in, foster care.
- **System provides flexibility and incentivizes efficiencies:** The system gives group homes flexibility in the use of AFDC-FC funds in order to create an active incentive for providers to operate in the most cost-effective manner possible, which, in the long run, restrains the overall growth in the costs of group home care.

Unfortunately, the system has received only 4 cost of living adjustments in the 15 years of its existence and, as a result, the system is now chronically under-funded; as a result, the flexibility originally built into the system has evaporated as there is not sufficient funding to adequately pay for even the system’s minimum requirement.