

4.0 COST ANALYSIS

This section explores the costs associated with the waiver demonstration. First, the costs for licensed care and program administration are analyzed to explore how the cost of care for Title IV-E eligible children in waiver demonstration counties has changed over time. Second, the expenditures for waiver and comparison counties are reviewed for cost-neutrality. This review is different from the analysis of changes in the costs of care for Title IV-E eligible children since, under the waiver demonstration, Title IV-E dollars can be spent for non-Title IV-E eligible children. Third, the differences in cost experiences for comparison and waiver counties are reviewed to identify reasons for variations between the two groups. Fourth, the costs associated with the reinvestment strategy implemented as part of the waiver demonstration will be reviewed. This strategy was designed to make funds available to counties participating in the waiver so that services that were not presently funded could be provided to children and their families to reduce the rate of initial entry into foster care, to reduce the length of stay in foster care, and to reduce the rate of re-entry into foster care.

4.1 Costs for Title IV-E Eligible Children

The cost of administering Title IV-E programs for children in foster care can be divided between the cost of out-of-home care and the cost of administering the program. Cost for administration includes salaries for social workers. Out-of-home care costs are a function of the number of children entering placement, the length of time a child remains in care, and the restrictiveness of care.¹ The first two factors relate to the size of the caseload. The third factor represents the average cost of licensed care. The smaller the number of children entering placement, and the shorter the length of time each child remains in care, the lower will be the number of children in care. Generally speaking, the lower the number of children in licensed care, the lower too the cost will be for out-of-home maintenance. By the same token, the smaller the number of children in restrictive care, the lower the cost of maintenance. The cost of one-month's care in a group home can exceed \$5,000. The cost of care with a foster family ranges between \$315 and \$415 per month, depending on the age of the child. Frequently, there is no maintenance cost for placing a child with a relative in kinship care. To the extent a county social service agency can place children in less-restrictive care, they can significantly reduce maintenance costs.

Exhibit 4.1 tracks the number of Title IV-E eligible children in licensed care over time. As the figure indicates, there were slightly fewer children in licensed care in comparison counties than

¹ The number of children entering care includes those entering placement for the first time as well as those re-entering placement.

there were in waiver counties during the base period for the waiver evaluation—from July 1995 through June 1996. In the pre-waiver period from July 1996 through the start of the waiver in July 1997, the two groups of counties had roughly the same number of children in licensed care. For example, in February 1997 there were 1,466 children in licensed care in comparison counties and 1,460 in waiver counties.² After the start of the waiver, the number of children in licensed care in waiver counties fell by 8.8%—from 1,475 in June 1997 to 1,299 in September 1997—while the number of children in licensed care in comparison counties stayed approximately the same.

The number of children in licensed care in waiver counties continued to fall to 1,144 in January 1999. Over the same time period, the number of children in licensed care in comparison counties fell to 1,459. As a result, there were 315 more children in care in comparison counties than in waiver counties. By August 1999, the number of children in licensed care in waiver counties rose by 147 to 1,291, while the licensed care caseload in comparison counties rose by seven to 1,466.

From August 1999, the number of children in licensed care in waiver counties began to fall slightly over time, dropping to 1,097 in June 2001. By September 2001, the number of children in licensed care fell by 17.5%—to 905. There was a slightly larger drop in the licensed care caseload in comparison counties. Between June and September 2001 the number of children in licensed care in comparison counties fell by 21.4%—from 1,304 to 1,025. According to DSS staff, one reason for this sudden drop in the number of children in licensed care was an intensive review of all Title IV-E cases. The cases were reviewed to insure the children met Title IV-E eligibility requirements. Children who were not eligible for Title IV-E were transferred to other programs. This case-by-case review was in preparation for an audit and was not related to the waiver.

² The caseload figures and the maintenance costs shown in the report are based on an extract of the Child Placement and Payment System (CPPS) in July 2000 and July 2002. The earlier extract contains information on children in licensed care from January 1995 through June 2000. Since payment information can be updated over time, the caseload figures provided may not exactly match those shown in earlier reports. The figures contained in this report reflect information currently available in CPPS. Also, subsequent extracts from CPPS may yield slight differences in the number of children in licensed care and the total cost for care. These differences are due to routine corrections being made to the payment files.

Exhibit 4.1. The Number of Children in IV-E Licensed Care in Waiver and Comparison Counties

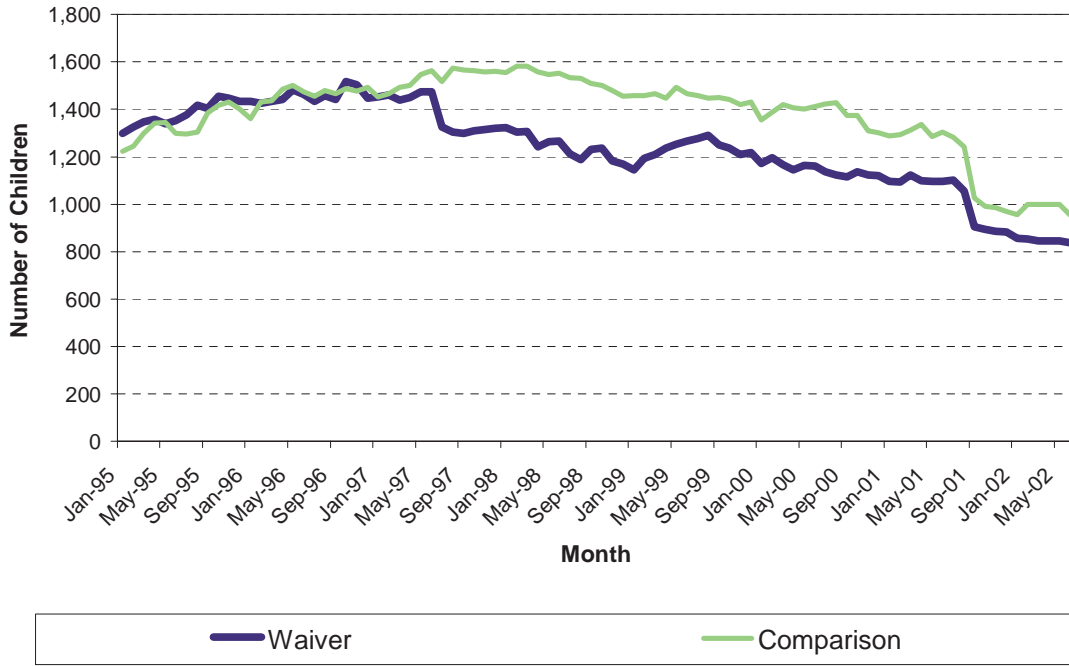
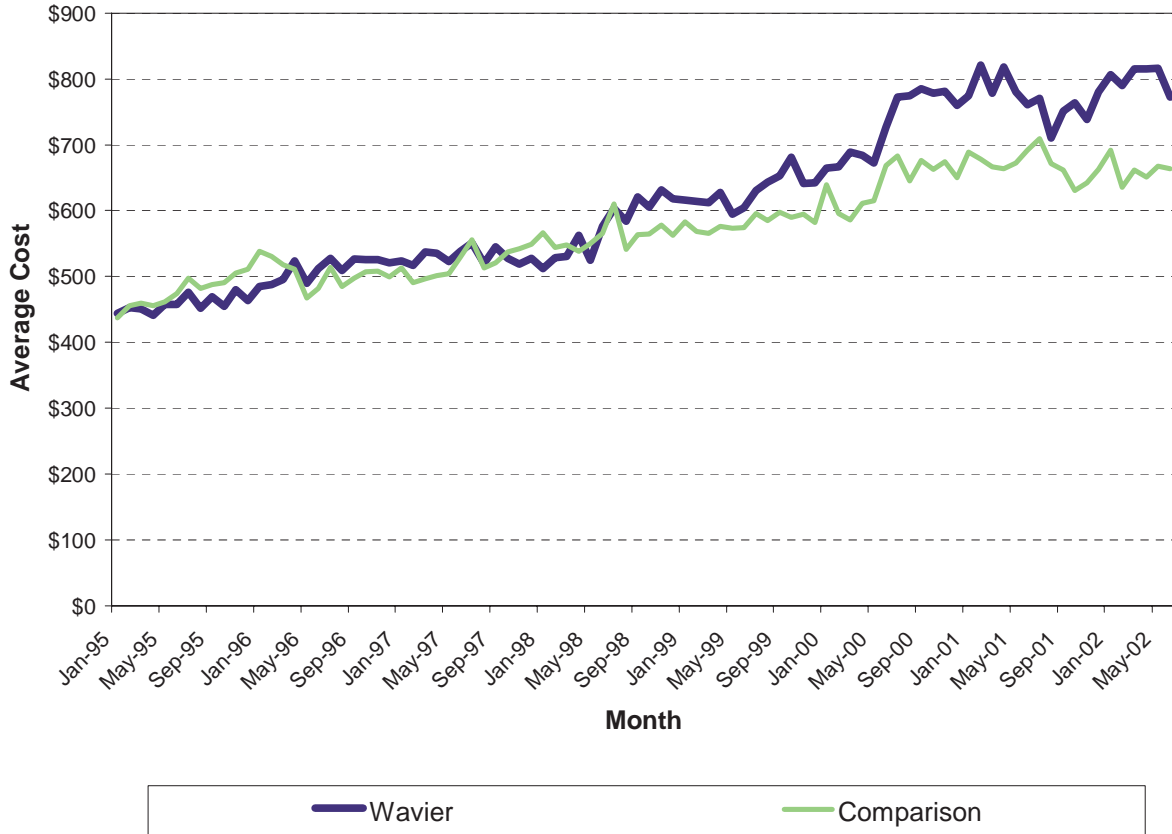


Exhibit 4.2 illustrates the average federal share of Title IV-E cost for a child in licensed care from waiver and comparison counties. As the figure indicates, the average costs were approximately the same in early 1995. In January 1995, six months before the base-year comparison period, the average federal share of Title IV-E maintenance cost was \$444 in waiver counties and \$437 in comparison counties. At the start of the base year comparison period on July 1995, the average federal share was \$476 in waiver counties and \$498 in comparison counties.

Exhibit 4.2. Average Monthly Federal Maintenance Costs for Children from Waiver and Comparison Counties

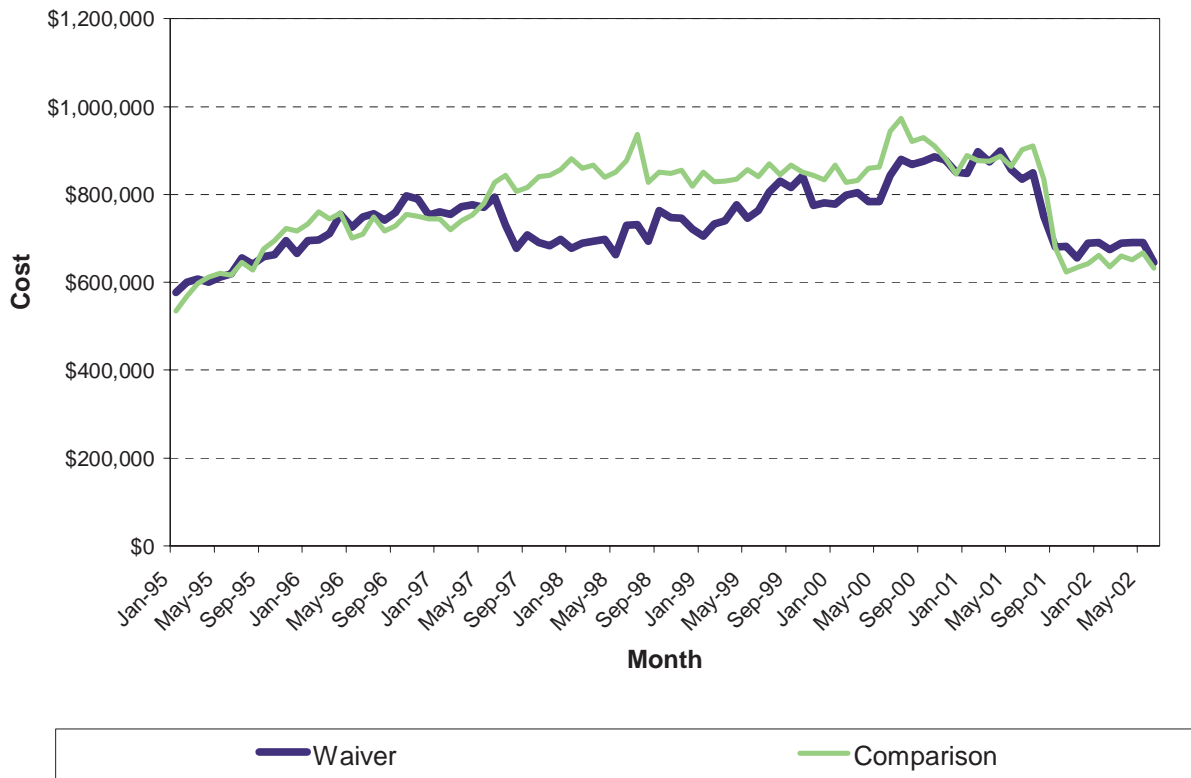


The average cost followed a similar track through mid 1998. In July 1997, the average federal share in wavier counties was \$551 and \$556 in comparison counties. In July 1998, the average federal share of maintenance costs rose to \$603 in waiver counties and \$610 in comparison counties. By July 1999, the average monthly federal share for a child in licensed care rose to \$631 in waiver counties but fell to \$596 in comparison counties. By July 2000, the average monthly federal share of a child’s maintenance cost in waiver counties had risen to \$772. The average cost in comparison counties also rose, but by not as much, to \$683. The average federal share continued to rise in waiver counties, reaching \$821 in February 2001, \$143 higher than the average federal share in comparison counties. The average federal share in waiver counties fell to \$770 in July 2001, while the average federal share in comparison counties rose to \$709. In December 2001, the average federal share of licensed care in waiver counties was \$780, compared to \$663 in comparison counties. In June 2002, the average

federal share for licensed care for Title IV-E eligible children in waiver counties was \$772 compared to \$664 for comparison counties.

As Exhibit 4.3 indicates, even though the average monthly federal cost was higher in waiver counties than comparison counties, the total federal cost could be less, so long as there were fewer children in care. As the figure indicates, during the base period the total federal Title IV-E share of maintenance costs for the wavier counties was very similar to those for the comparison counties: \$655,944 to \$645,228 in July 1995. In July 1997, the total federal share of the maintenance costs for the waiver counties was more than \$100,000 less than that for the comparison counties—\$730,015 to \$842,696—even though, as Exhibit 4.2 indicated above, the average federal share of maintenance cost for waiver counties was only \$5 less than comparison counties.

Exhibit 4.3. Total Federal Maintenance Costs for IV-E Eligible Children from Waiver and Comparison Counties



By July 1998, the total federal share of maintenance cost for waiver counties was more than \$200,000 less than those for comparison counties—\$731,328 to \$936,006 even though the average federal share of maintenance was only \$7 less for waiver counties than for comparison counties. About \$194,000 of the difference in total cost is due to waiver counties having 321 fewer children in

licensed care in July. The remaining amount is due to the \$7 difference in average cost for the 1,534 children in licensed care in comparison counties.

In July 1999, the total federal share of federal maintenance costs for Title IV-E eligible children was only \$64,000 higher for comparison counties than for waiver counties—\$868,952 to \$805,159. The federal share of the maintenance cost for comparison counties jumped to \$972,569 in July 2000, almost \$100,000 higher than the cost for waiver counties (\$879,075). This July 2000 figure for comparison counties may be a little misleading. In May, the total federal share of maintenance costs for comparison counties was \$862,164. By August, the figure for comparison counties dropped from the July figure by more than \$52,000 to \$920,314.

In February 2001, the total federal share of federal maintenance cost for Title IV-E eligible children for comparison counties was less than that for waiver counties—\$876,451 to \$897,994. This corresponds in part to the difference in the average federal share of Title IV-E costs—\$821 for waiver counties compared with \$678 for comparison counties. The \$143 difference in average costs—with the average costs for comparison counties lower than that for waiver counties—resulted in the waiver counties having a higher total cost in spite of the fact that there were 198 fewer children in licensed care in waiver counties.

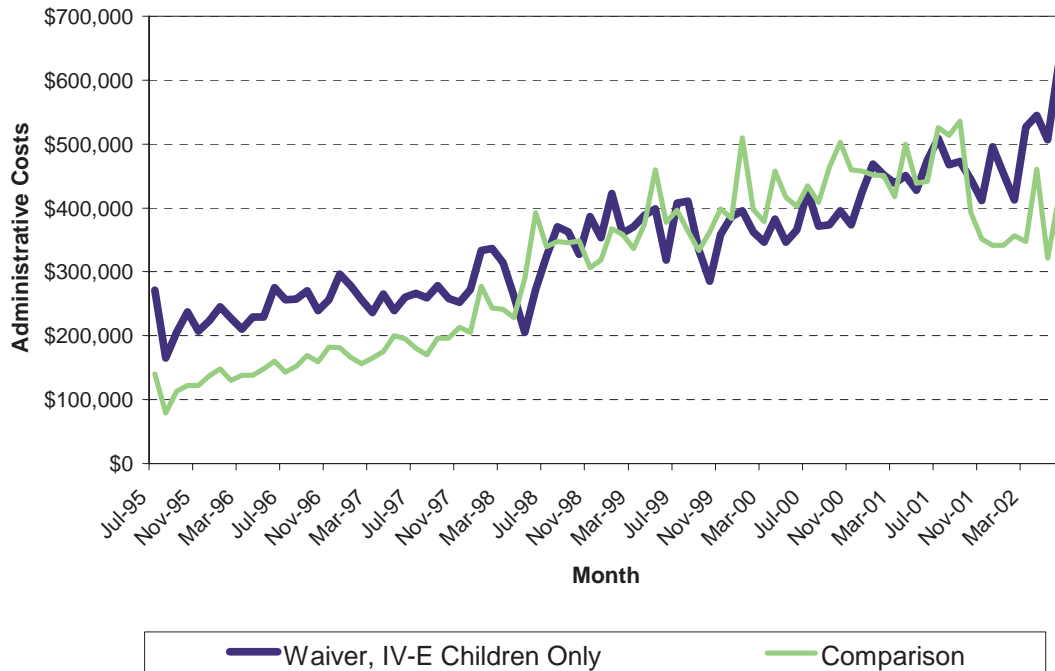
This illustrates the interaction between having a higher average cost per child but few children in care. In some instances, such as in July 1998, waiver counties had significantly lower total federal costs for licensed care than comparison counties even though their average federal share of the cost per child was only \$7 less. The reason for the lower total costs was that waiver counties had 321 fewer children in licensed care. In February 2001, waiver counties still had a lower caseload than comparison counties, but their average cost per child was \$143 higher. Even though the caseload was lower, it wasn't low enough to compensate for the substantially higher average cost. As a result, the total federal share of the cost of out-of-home care in waiver counties was higher than for comparison counties.

By July 2001, the total federal share of out-of-home maintenance for Title IV-E eligible children in waiver counties was about \$60,000 less for waiver counties than for comparison counties, \$849,410 to \$909,891. By December 2001, when the cases had been reviewed to verify eligibility for Title IV-E—the total federal share of out-of-home maintenance costs for waiver counties had fallen to \$689,047 for waiver counties and \$642,297 for comparison counties. Again, even though comparison counties had 86 more children in licensed care—969 to 883—the average federal share of the cost of licensed care for comparison counties was \$117 less than that for waiver counties (\$663 to \$780), resulting in the total federal share of licensed care being \$46,750 less for comparison counties.

4.2 Administrative Costs

While the costs for licensed care in demonstration and waiver counties have followed a similar path, there have been differences in the rate of growth of administrative costs. Administrative costs have grown at a much faster rate in comparison counties. Exhibit 4.4 shows the federal share of administrative costs for Title IV-E eligible children in waiver and comparison counties. It excludes the cost of services provided to non-Title IV-E eligible children provided as part of the waiver demonstration. The purpose of the figure is to compare the administrative cost experience of the two groups of counties with children in similar circumstances. While it does not include the cost of services provided to non-Title IV-E eligible children, it does include expenditures for Title IV-E eligible children made as part of the waiver demonstration. As the figure indicates, administrative costs in waiver counties were substantially higher than in comparison counties during the base period. For example, at the beginning of the base period in July 1995, administrative costs from waiver counties were more than double the administrative costs from comparison counties—\$271,223 as compared to \$140,018.³

Exhibit 4.4. Federal Administrative Costs for IV-E Eligible Children in Waiver and Comparison Counties



³ The analysis on administrative costs is drawn from extracts from the DSS 1791 report. Data from these reports, which are submitted to the DHHS Controller’s office, are archived and stored on a state administrative computer system.

By July 1997, monthly Title IV-E administrative costs in waiver counties had fallen slightly, to \$265,857. Costs in comparison counties rose over the two-year period, to \$179,912, about \$86,000 less than waiver counties. Costs in comparison counties continued to rise at a faster rate than in waiver counties. By May 1998, monthly administrative costs in comparison counties exceeded those from waiver counties, \$289,635 to \$204,964. In June, administrative costs in waiver counties began to rise sharply. In July 1998, Title IV-E administrative costs in waiver counties had risen to \$324,458. These costs were about \$15,000 less than the administrative costs for comparison counties—\$339,426.

By July 1999, administrative costs for waiver counties were higher than those for comparison counties, \$408,089 to \$396,940. The administrative costs for waiver counties continued to rise slightly over the next twelve months, reaching \$426,692 by July 2000. Costs also rose in comparison counties. In July 2000, they had risen to \$434,408. In July 2001, administrative costs for comparison counties were \$525,451. Over the same time period, costs in waiver counties rose by \$82,000 to \$509,254.

The figure also illustrates a high level of month-to-month variation in administrative costs over time. These costs do not appear to follow a clear seasonal pattern of consistently increasing in certain months and falling in others in both groups of counties. In waiver counties, there appear to be peaks in administrative costs in January and July of each year. This is not the case in comparison counties. While there are some peaks in January of some years, there are not associated peaks for July.

The figure indicates a pronounced dip in administrative costs for comparison counties in the fourth calendar quarter of 2001. The reasons for this drop in administrative costs are not clear. It may be related to the review of Title IV-E cases described above. If children in licensed care were switched from Title IV-E, services provided to those children could not be reimbursed by Title IV-E dollars in comparison counties. While the costs in the comparison counties dropped, there was not a corresponding decline in administrative costs for waiver counties. As the figure indicates, there was variation in the administrative costs for waiver counties during this time period, but there was a general upward trend in administrative costs for these counties. Analysis presented later in this section suggests that this increase in administrative expenditures is associated with an increase in reinvestment spending associated with the waiver.

4.3 Cost-neutrality

Cost-neutrality is determined for administrative and maintenance costs by analyzing the rate of change in costs across the group of comparison counties and applying that rate to the waiver group. According to the terms and conditions of the waiver, the rate of change is determined by

dividing the costs for the comparison counties during a particular calendar quarter by the costs during the base period—July 1995 through June 1996. The cost analysis in this report compares monthly costs as opposed to quarterly costs. This makes it possible to jointly assess maintenance costs and administrative costs. While it is possible to average the number of children in licensed care across a calendar quarter, expenditures are made on a monthly basis. By using monthly figures, a better estimate of average monthly cost can be obtained. Also, there may be changes in expenditures that are more apparent when analyzed at the monthly level. Aggregating data by quarters would make these changes more difficult to identify.

The waiver demonstration in North Carolina did achieve cost-neutrality. Underlying this general conclusion, however, is the fact that actual maintenance costs did exceed projected costs. At the end of the five-year waiver demonstration, maintenance costs in waiver counties were \$1.7 million higher than they were projected to have been if the waiver had not been in place. The cost projections were made with the methodology prescribed by ACF. While maintenance expenditures were higher than projected, federal administrative costs among waiver counties were substantially lower than they were projected to have been if the waiver had not been implemented. These savings in administrative funds more than offset the difference between actual and projected federal maintenance expenditures. As a result, NC-DSS estimates that waiver counties spent \$17 million less than they would have without the waiver.

The first step in the cost analysis for licensed care is to sum the federal Title IV-E expenditures for the waiver and comparison counties. Exhibit 4.5 presents the total federal Title IV-E maintenance costs for the two groups of counties. Unlike the information presented earlier in Exhibit 4.3, Exhibit 4.5 includes costs associated with Title IV-E eligible children as well as for children that are not Title IV-E eligible. Under the terms of the waiver, federal Title IV-E dollars could be spent for both groups of children. As part of the reinvestment strategy for the waiver, Title IV-E funds were used to cover a part of the cost of licensed care for children that did not meet Title IV-E eligibility requirements. Prior to the waiver, the cost of licensed care for these children was split evenly between the state and county, up to the standard board rate. A more complete discussion of expenditures for these children is presented later in this section in a review of the reinvestment strategy.

The changes in maintenance costs depicted in Exhibit 4.5 are similar in many respects to those shown in Exhibit 4.3. The major difference is that maintenance costs for waiver counties do not drop sharply in fall 2001. In the early fall 2001, counties may have been reviewing the cases of children in licensed care to verify Title IV-E eligibility. It appears that the costs of care for a number

of children were switched from Title IV-E to state and county funds. This switch would explain the drop in Title IV-E maintenance costs for comparison counties. Waiver counties were using Title IV-E dollars to cover a portion of the costs of licensed care for these non-Title IV-E eligible children. As a result, even though some children’s costs were changed from Title IV-E funds to state and county funds in comparison counties, in waiver counties these children may still have been covered by Title IV-E funds even though they were no longer classified as Title IV-E eligible.

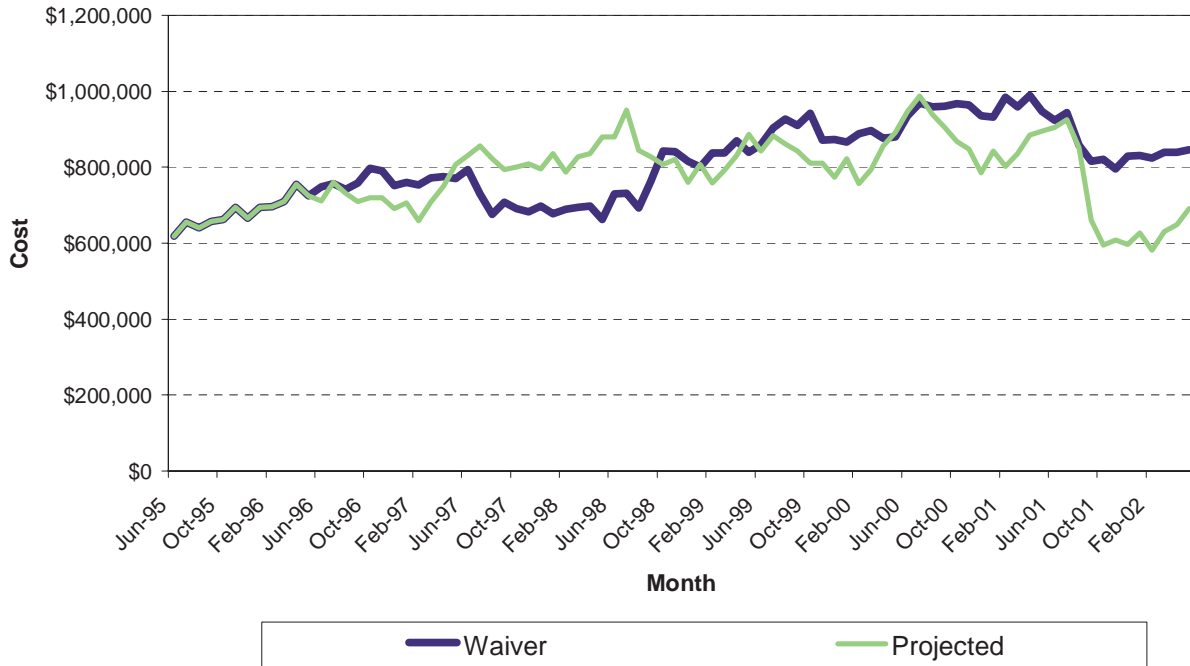
Exhibit 4.5. Total Federal Maintenance Costs for Waiver and Comparison Counties



Exhibit 4.6 shows the difference between the actual federal share of maintenance costs for waiver counties as well as the projected costs for those counties if their costs had followed the same rate of change as the costs for comparison counties. The figure shows costs for waiver counties from the base period through the end of the waiver, including the 12-month period between the base period and the start of the waiver. The predicted costs were determined by dividing the administrative costs for the comparison counties on a monthly basis by the corresponding month during the base period to calculate a rate of change. The administrative costs for each month during the base period for the waiver counties were multiplied by the resulting rate of change.

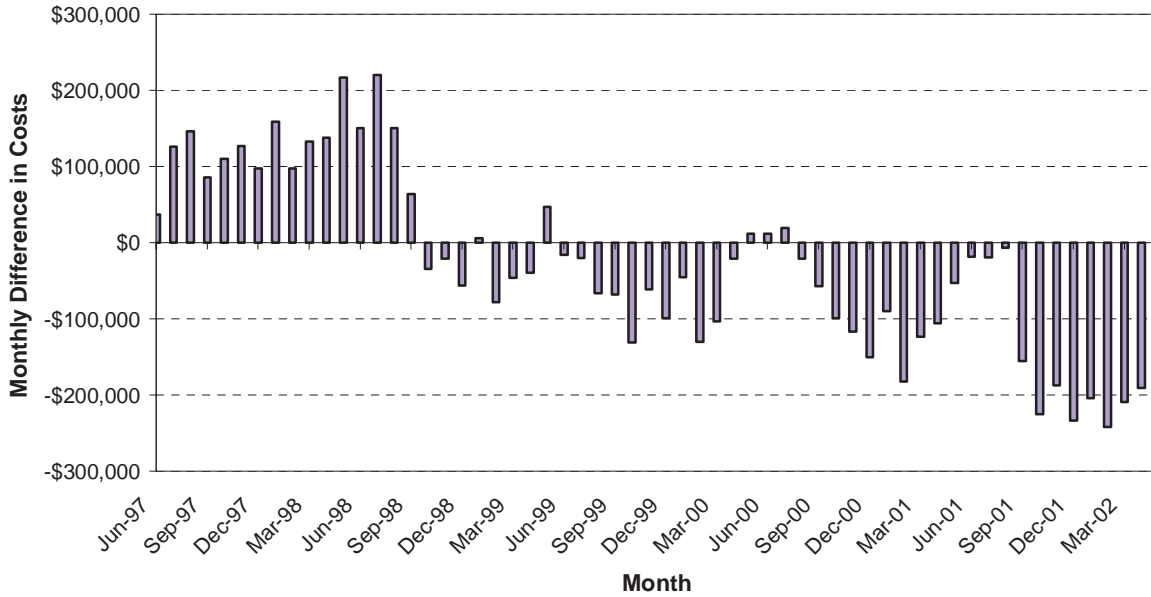
As Exhibit 4.6 indicates, by the start of the waiver in July 1997 the actual waiver costs were less than predicted. The actual costs remained below the predicted costs for the next sixteen months. For all but five months over the rest of the waiver demonstration, the actual federal maintenance costs for waiver counties were higher than the predicted costs.

Exhibit 4.6. Actual and Projected IV-E Federal Maintenance Costs for Waiver Counties



The amount of the difference between actual and predicted costs is shown in Exhibit 4.7. For months where the actual federal maintenance costs were less than predicted, the bars are above zero. If the actual maintenance costs were greater than predicted, the bars are below zero. As the figure indicates, over the five-year life of the waiver demonstration, the actual maintenance costs were less than predicted for 21 months. For the remaining 39 months, the actual federal maintenance costs were higher than predicted. Also, as the chart indicates, the highest savings occurred early in the waiver demonstration.

Exhibit 4.7. Difference Between Actual and Projected Maintenance Costs for Waiver Counties

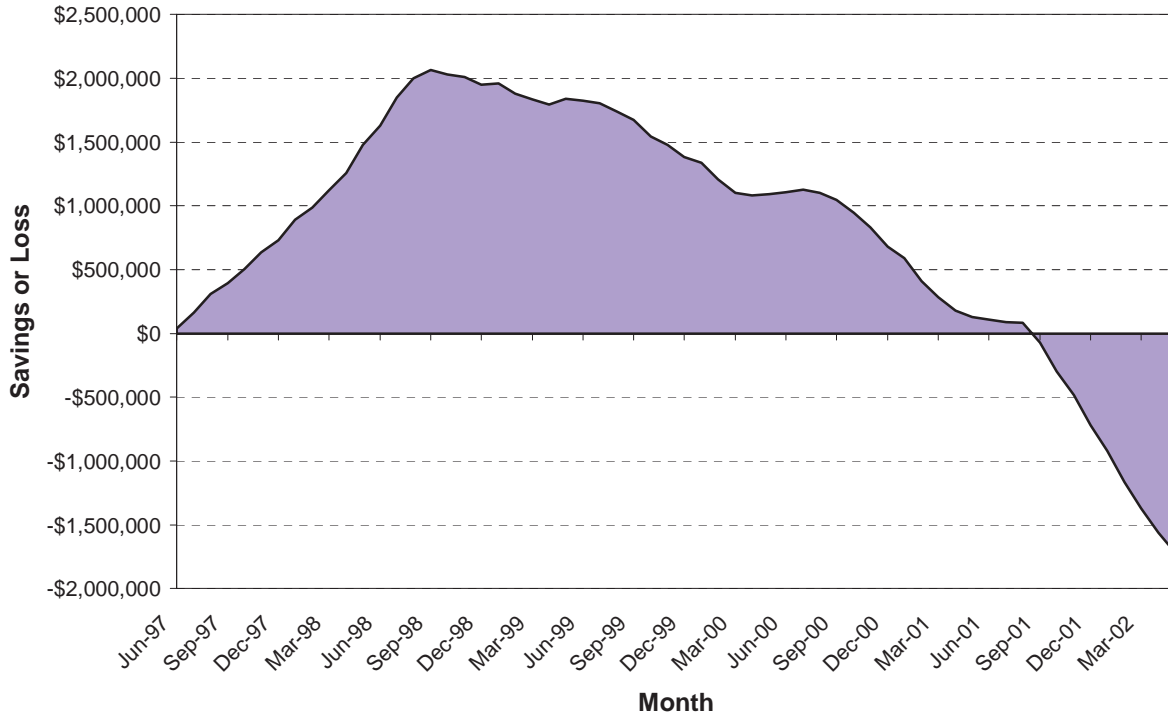


The actual costs exceed the predicted costs for the first time October 1998 when Title IV-E dollars were used to cover the costs of licensed care for children that were not Title IV-E eligible. The use of Title IV-E funds to cover these costs was part of the waiver’s reinvestment strategy. There were only five times over the following 44 months when actual maintenance costs were less than predicted. Also, as the figure indicates, during the last nine months of the demonstration, the actual costs exceeded predicted by more than \$150,000 each month. For five of those nine months, the actual costs exceeded the predicted amount by more than \$200,000.

Even though the actual costs were greater than predicted 39 months out of 60, the waiver counties’ maintenance costs were below projected levels for all but the last nine months of the demonstration. The difference between actual and projected maintenance costs is illustrated in Exhibit 4.8. The shaded area in the figure shows the cumulative savings in maintenance costs over the five years of the demonstration. As the figure indicates, the savings during the first 16 months of the waiver resulted in substantial cost savings. The amount of savings at one point exceeded \$2 million. The cumulative savings peaked immediately prior to using Title IV-E funds to cover the maintenance costs of non-Title IV-E eligible children. As Title IV-E funds began to be used for these costs, the amount of cumulative savings, which translates to the degree of cost-neutrality, began to decline. Due to the large amount of savings during the first 16 months of the waiver, the savings

resulted in the maintenance expenditures continuing to be below projected levels until the last nine months of the waiver.

Exhibit 4.8. Cumulative Waiver Maintenance Cost Savings and Losses



Actual maintenance expenses began exceeding projected levels when the number of Title IV-E eligible children in the comparison counties fell in late 2001. As noted earlier, DSS staff suggested that this decline in the number of children covered by Title IV-E maintenance corresponds with a review of the eligibility of children in care in preparation for an audit. The audit was not related to the waiver project. The review took place in all counties in the state. As the result of the review, the maintenance costs for a number of children were switched from Title IV-E to state and county funds. In waiver counties, Title IV-E dollars were used to cover a portion of the costs of licensed care for non-Title IV-E eligible children. Thus, while Title IV-E maintenance costs dropped in comparison counties, they did not decline as sharply in the waiver counties. As a result, the actual maintenance costs substantially exceeded projected costs, and the maintenance expenses exceeded projections. Even though the maintenance expenses in waiver counties exceeded projected levels, the savings in administrative costs were substantial and more than compensated for the difference between projected and actual maintenance costs.

Total administrative costs for waiver and comparison counties are illustrated in Exhibit 4.9. This figure is similar in many respects to the information presented earlier in Exhibit 4.4. The difference between these two figures is that Exhibit 4.9 includes administrative costs resulting from providing services to non-Title IV-E eligible children in waiver counties. As the figure indicates, and as was discussed earlier, the administrative costs for waiver counties were higher during the base year than administrative costs for comparison counties. By the start of the waiver in July 1997, the administrative costs for both groups of counties were almost the same in terms of the total amount of federal funds expended each month. The amount of change between the base year and the start of the waiver resulted in a significant increase in the rate of change in administrative costs for the comparison group of counties. This increase almost guaranteed that the waiver demonstration would be cost-neutral.

Exhibit 4.9. Total Federal Administrative Cost for Waiver and Comparison Counties

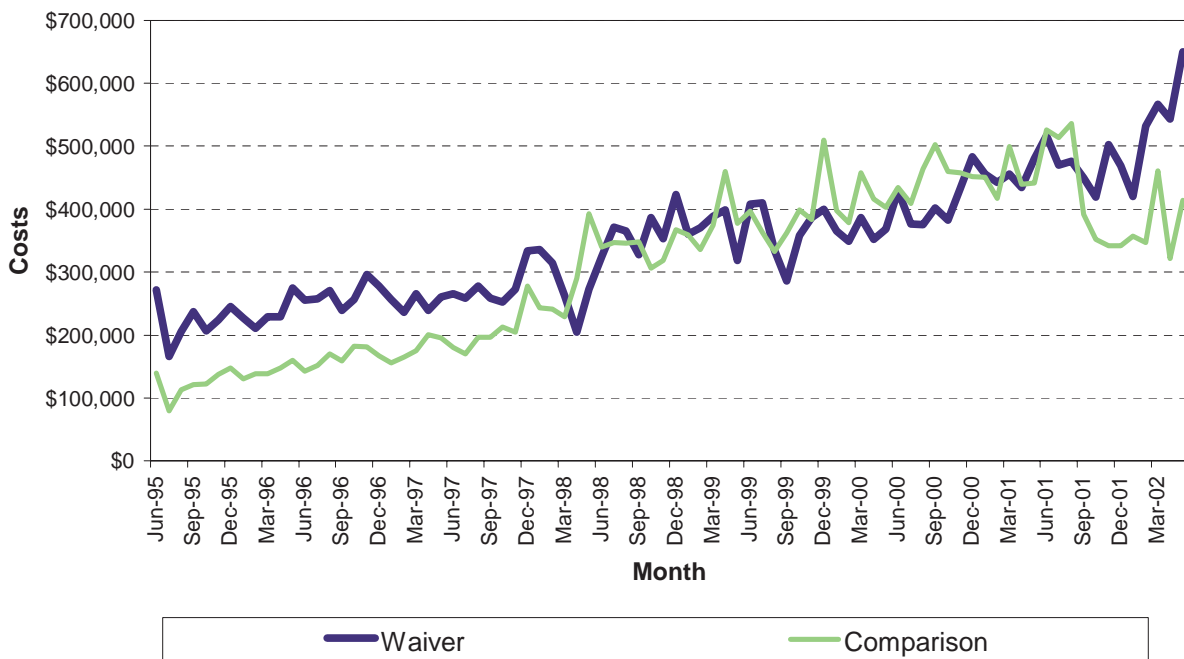


Exhibit 4.10 presents the actual federal share of Title IV-E administrative costs in waiver counties with what those costs would have been if they had followed the same rate of change as the administrative costs in comparison counties. Just as with the predicted maintenance costs, the predicted administrative costs are calculated by multiplying the administrative costs for waiver counties during each month of the base period by the rate of change experienced by comparison counties. For example, administrative costs for comparison counties reimbursed in July 1997 were

1.285 times higher than those reimbursed in July 1995. The projected administrative costs for the waiver counties are determined by multiplying the actual administrative costs for waiver counties reimbursed in July 1995 (\$271,223) by the rate of increase in comparison counties (1.285). The projected costs for waiver counties in July 1997 are \$348,501.

As the figure indicates, the actual administrative costs in waiver counties are substantially lower than they would have been if they followed the rate of increase found in the comparison group of counties. Even though, as Exhibit 4.9 illustrated above, both groups of counties followed a similar pattern of change in administrative costs from July 1997 through the middle of 2001, the administrative expenses for the comparison group during the base period were much lower. Those costs for the comparison group increased substantially from 1996 through 1997. If the waiver counties had experienced the same rate of increase, their administrative costs would have followed the “predicted” track in Exhibit 4.10.

Exhibit 4.10. Actual and Projected Administrative Cost for Waiver Counties

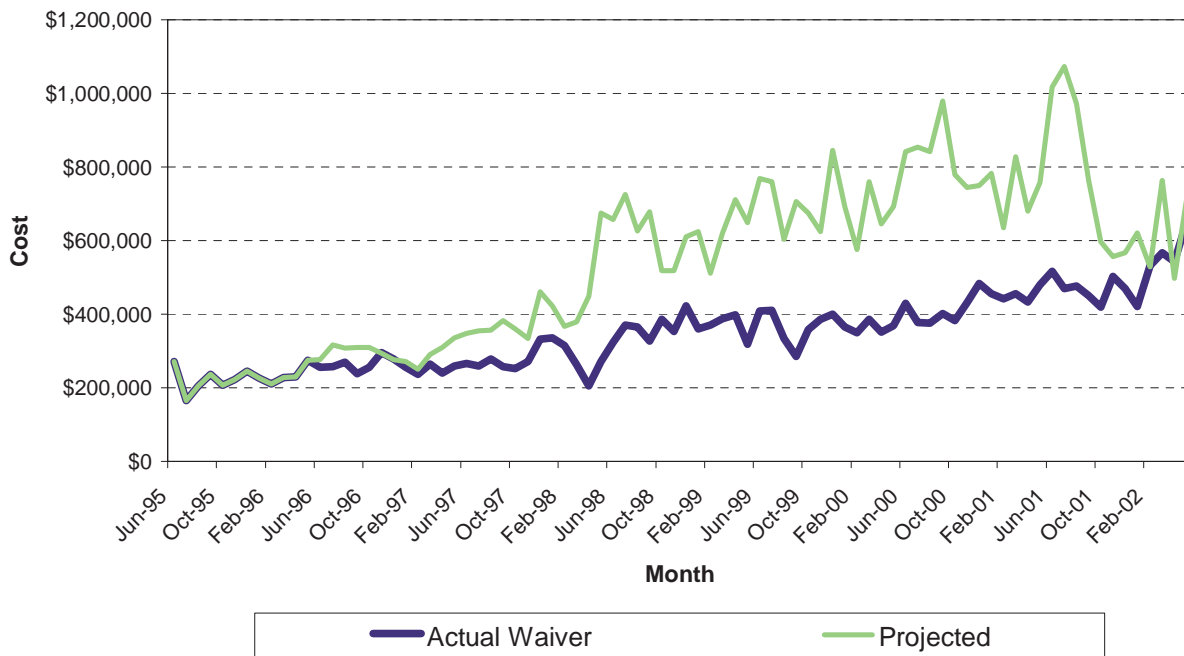
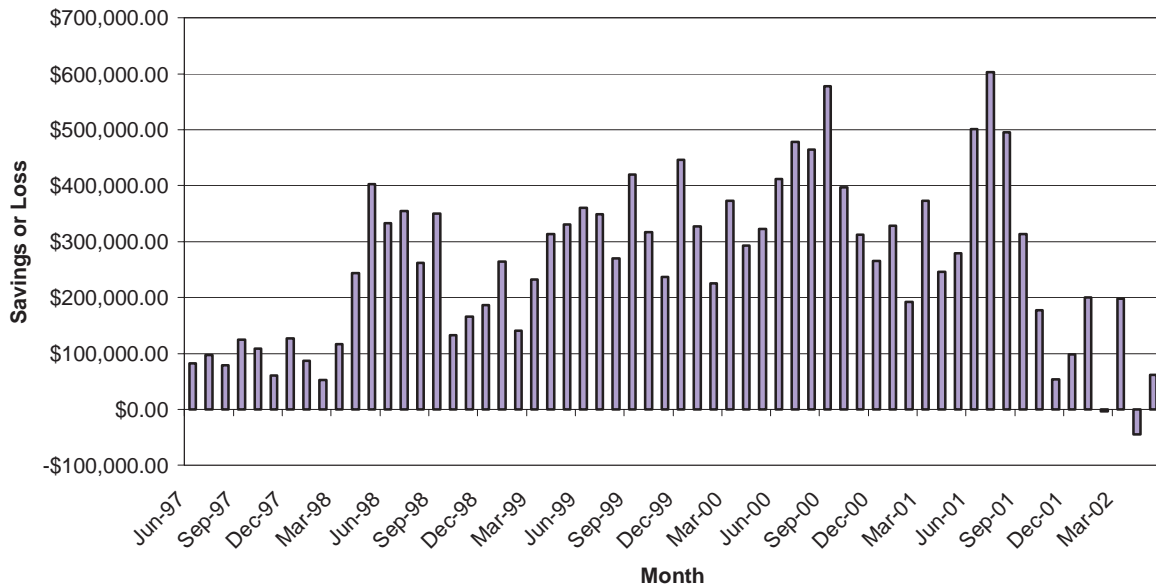


Exhibit 4.11 illustrates the difference between actual federal administrative costs for waiver counties and the amount that would be predicted based on the experience of the comparison counties. As the figure indicates, the difference is between about \$52,000 and \$124,000 for the first ten months of the waiver. According to the figure, by the 12th month of the waiver, the actual cost for the waiver counties was \$400,000 less than the amount predicted based on the experience of the

comparison group. For a 23-month period beginning in the spring of 1999, the actual administrative costs for the waiver counties were always more than \$200,000 less than the amount predicted by the comparison group, with the amount reaching or exceeding \$400,000 on seven occasions. For one of these seven months, the difference exceeded \$550,000. Also, in the late summer of 2001, the difference between actual and predicted exceeded \$600,000 one month.

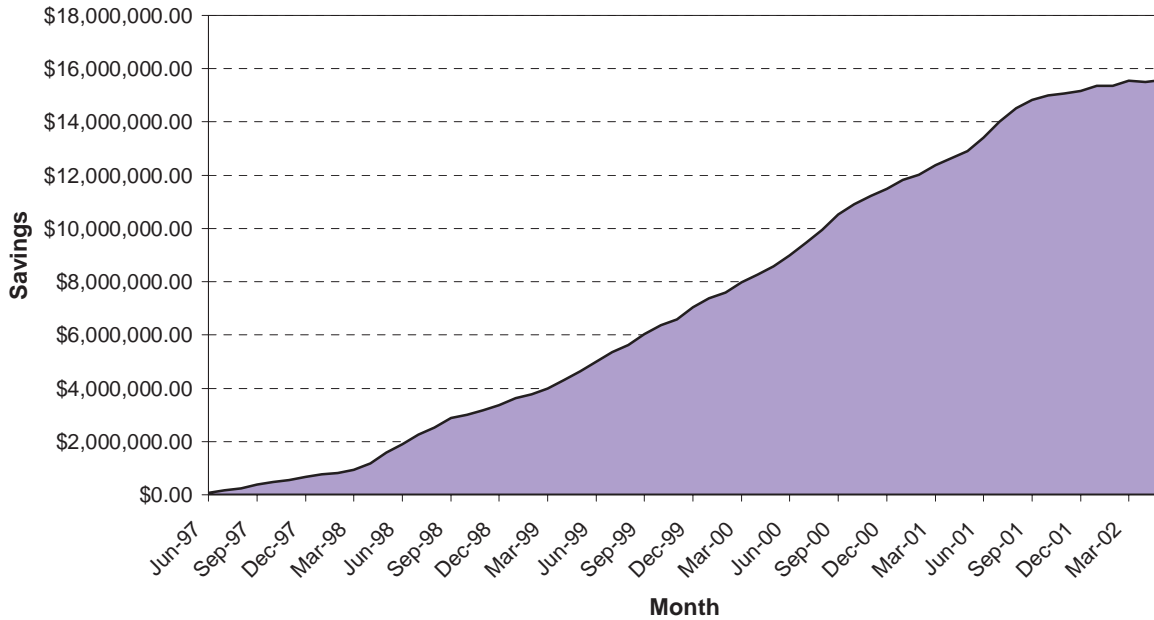
Exhibit 4.11. Difference Between Actual and Predicted Administrative Costs for Waiver Counties



By late 2001, the monthly difference between actual and predicted fell below \$55,000. For two out of the last four months of the waiver, the actual costs were above the predicted costs, according to the figure. In the next to the last month of the demonstration, the actual waiver costs were more than \$45,000 higher than the predicted amount.

Even though the final few months of the waiver the actual costs approached or were higher than the projected costs, the cost-neutrality status for administrative expenses was never in doubt. As Exhibit 4.12 indicates, after 11 months the waiver counties had cumulative savings of more than \$1 million. Three months later—14 months into the waiver—the waiver counties had more than \$2 million in administrative savings. As the figure shows, the cumulative amount of savings continued to increase over time at a nearly steady rate through fall of 2001. The growth in cumulative savings began to flatten at that time.

Exhibit 4.12. Cumulative Administrative Cost Savings For Waiver Counties



This figure uses information extracted from administrative cost reports maintained by the DHHS controller’s office. The amount of cumulative savings shown in Exhibit 4.12 is lower than that calculated by DSS. The difference may be due to the time the cost figures were obtained. The data used by DSS are obtained from reports printed at the end of the report month. The data used to produce Exhibit 4.12 may include changes and modifications not available when the printed reports used by DSS were generated. Both calculations indicate a substantial amount of savings in administrative costs by the waiver counties.

4.4 Striving for Cost-neutrality

As part of the waiver, counties were encouraged to develop and pursue their own strategies to reduce the rate of growth in maintenance and administrative costs. Under the terms of the waiver, cost-neutrality was determined by comparing the rate of growth in the federal share of Title IV-E maintenance and administrative costs. Calculating cost-neutrality began by establishing baseline costs for maintenance and administration for the comparison group of counties. The baseline consisted of costs during state fiscal year (SFY) 1995-1996. Costs for the comparison counties for subsequent quarters were compared with costs during the base year. The rate of change in maintenance and administrative costs was determined by dividing the costs for each quarter by the

costs during the corresponding baseline quarter. Separate rates were calculated for maintenance and administrative costs.

After calculating the rate of change from the base year for the comparison counties, a determination was made concerning whether the costs in the waiver counties had changed at a lower rate. Cost-neutrality was determined by multiplying the quarterly maintenance and administrative costs for the waiver counties during the base year by the rate of change in comparison counties. This provided a projected cost for the waiver counties. This projected cost was compared with the actual cost experience of the waiver counties. If the actual costs were lower than the projected costs, the waiver would be deemed cost-neutral.

The quarterly rate of change for maintenance and administrative costs for the comparison group was used to determine whether each waiver county was cost-neutral. Individual waiver counties were never matched with individual comparison counties. Cost-neutrality was based on the group of counties as a whole. If each individual waiver county was cost-neutral, then the group as a whole would be cost-neutral. While this is a sufficient condition for cost-neutrality for the entire waiver, it is not a necessary condition. In fact, it would have been possible for the waiver to be cost-neutral if only one county were cost-neutral, as long as the remaining counties were nearly cost-neutral.

Overall cost-neutrality was determined by summing the difference between the projected and actual maintenance costs and the projected and actual administrative costs. So long as the sum of these differences was a positive number, the waiver was cost-neutral. Over the life of the project, eight counties were cost-neutral for the 20 calendar quarters of the project. These counties are shown in Table IV-1. According to the table, Buncombe, Cleveland, Edgecombe, Forsyth, Pasquotank, Rockingham, Scotland, and Wake counties were cost-neutral each quarter. Five additional counties—Durham, Haywood, Union, Wayne, and Yadkin—were cost-neutral for between seventeen and nineteen quarters. Four counties—Brunswick, Burke, Johnston, and Yancey—never met cost-neutrality. Due to the nature of the cost-neutrality calculations, it was nearly impossible for two of those counties—Brunswick and Yancey—to meet the cost-neutrality criteria. This was due to the fact that that these two counties did not claim any administrative costs during the base year. As a result, claims for reimbursement for any Title IV-E administrative costs during the five-year life of the waiver resulted in their not being cost-neutral in this area.

While there were no direct costs to a county for participating in the waiver, it was in each waiver county's interest to be cost-neutral. Not only did a county's being cost-neutral mean that the likelihood of the demonstration would be cost-neutral, it also meant that the county had access to

the trust fund account. The trust accounts were created as part of the waiver’s reinvestment strategy. In order to create a pool of funds that could be used for initiatives to address the three goals of the waiver, DSS established a trust account for each county. The trust accounts were funded with state dollars. Cost-neutral counties could draw down their share of the trust fund after requesting and receiving approval to amend to their waiver plan.

Exhibit 4.13. Quarterly Cost-neutrality Status of Waiver Counties

State Fiscal Year Quarter	Alamance	Brunswick	Buncombe	Burke	Caldwell	Cleveland	Durham	Edgecombe	Forsyth	Haywood	Johnston	Pasquotank	Rockingham	Scotland	Union	Wake	Wayne	Yadkin	Yancey
9798-1	1	0	1	0	1	1	0	1	1	1	0	1	1	1	0	1	0	1	0
9798-2	0	0	1	0	1	1	0	1	1	1	0	1	1	1	0	1	1	1	0
9798-3	0	0	1	0	1	1	0	1	1	1	0	1	1	1	1	1	1	1	0
9798-4	1	0	1	0	1	1	1	1	1	1	0	1	1	1	1	1	1	1	0
9899-1	1	0	1	0	1	1	1	1	1	1	0	1	1	1	1	1	1	1	0
9899-2	1	0	1	0	1	1	1	1	1	1	0	1	1	1	1	1	1	1	0
9899-3	0	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	1	0
9899-4	0	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	1	0
9900-1	0	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	1	0
9900-2	0	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	1	0
9900-3	0	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	1	0
9900-4	0	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	1	0
0001-1	0	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	1	0
0001-2	0	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	1	0
0001-3	0	0	1	0	0	1	1	1	1	0	0	1	1	1	1	1	1	1	0
0001-4	0	0	1	0	0	1	1	1	1	0	0	1	1	1	1	1	1	1	0
0102-1	0	0	1	0	1	1	1	1	1	1	0	1	1	1	1	1	1	1	0
0102-2	0	0	1	0	1	1	1	1	1	1	0	1	1	1	1	1	1	1	0
0102-3	0	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	0	0
0102-4	1	0	1	0	0	1	1	1	1	1	0	1	1	1	1	1	1	0	0

A number of factors led to the cost outcomes observed as a result of the waiver. Some of these are contextual and are the result of factors such as the number of children abused or neglected, the types of abuse and neglect, and the level of therapeutic care required by the children as result. Many of these contextual factors are outside the reasonable control of local departments of social services. Other factors affecting costs include such things as practice standards and relate to the use of kinship care, foster care, and group care facilities. These practice standards are to a large extent under the control of the local agency and may have a significant impact on costs. For example, a local agency may have limited experience with kinship care and may not have a large number of foster parents. As a result, they may tend to rely on group care homes, a pattern of service that can have a significant impact on maintenance costs.

Other factors may be the result of policies pursued as part of the waiver. An example of this is the decision as part of the reinvestment strategy to use Title IV-E funds to cover a portion of the cost of licensed care for non-Title IV-E eligible children. The use of these funds raised the amount of federal dollars used for maintenance expenditures in waiver counties. This policy alone did not

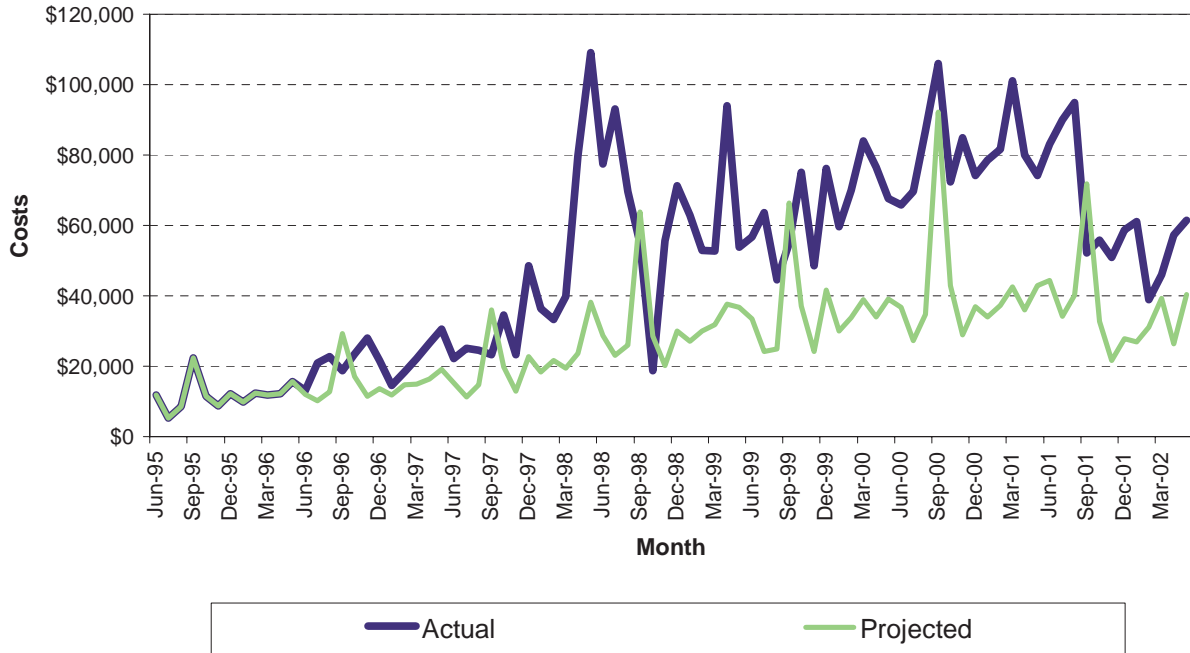
result in the maintenance expenses for waiver counties exceeding projected levels. It appears that these expenses for licensed care for the waiver counties would have remained cost-neutral if the comparison counties—along with many other counties across the state—had not begun reviewing children in licensed care to verify their Title IV-E eligibility. The review of these cases, and the subsequent shift of a number of children from Title IV-E care, reduced the federal maintenance costs for comparison counties. The resulting drop in maintenance expenses for the comparison counties appears to have resulted in the increase between actual and predicted costs for waiver counties.

Similarly, there are several reasons that the waiver counties had lower administrative costs than were projected based on the experiences of the comparison group. One reason appears to be the mix of counties in the comparison group. At least one of the counties in the comparison group had a significant increase in administrative costs. Exhibit 4.14 shows the actual administrative costs for County D along with the predicted level of costs if its expenses had changed only at the rate of the comparison group.⁴ The projected expenses are based on the rate of increase of all 19 comparison counties.

As the figure indicates, federal administrative expenses for County D began to increase sharply in late spring 1998. In the nine-month period beginning with costs reimbursed in January 1998, County D's actual costs were \$365,439 higher than they would have been if they had grown only at the rate of the 19 comparison counties. The actual administrative costs reimbursed for County D reimbursed during 1999 were \$327,379 higher than the predicted amount. In 2000 the county's actual federal administrative costs were \$439,401 higher than predicted, while the administrative costs for 2001 were \$442,123 higher.

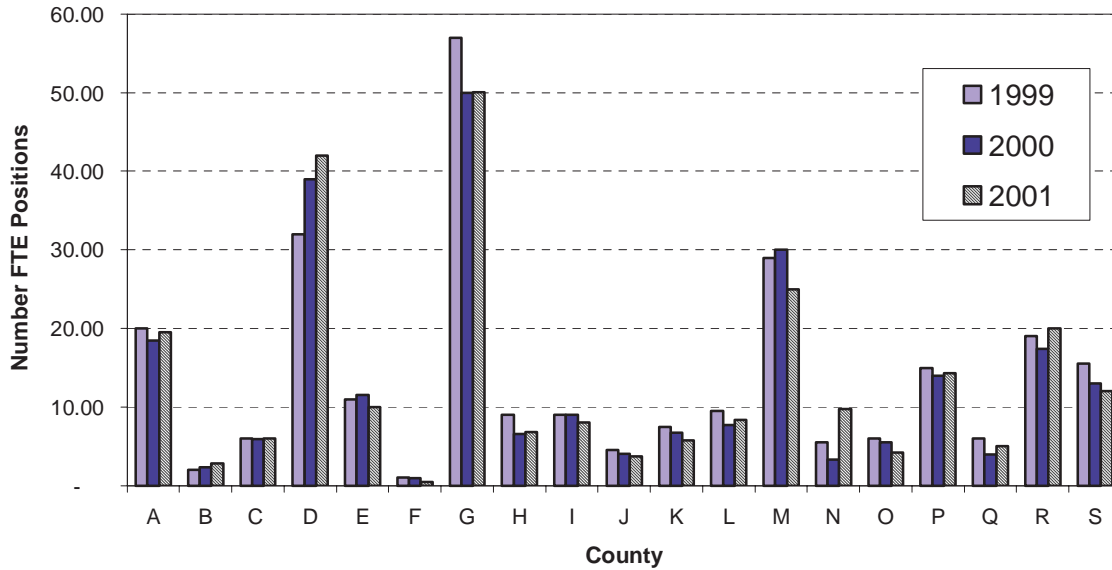
⁴ In case the status of comparison counties must be preserved for any future phase of the waiver demonstration in North Carolina, we have chosen not to identify them by name.

Exhibit 4.14. Actual and Projected Administrative Costs for County D



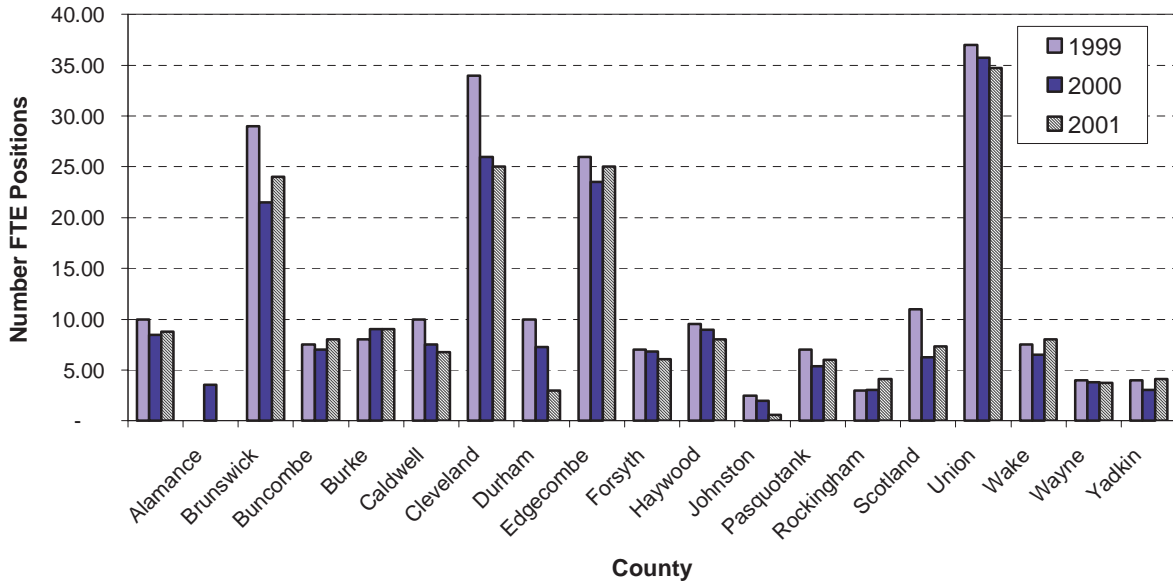
One reason for this growth in administrative costs in County D is that they increased the number of staff involved in providing foster care services to Title IV-E eligible children. Using data compiled by NC-DSS, Exhibit 4.15 shows the changes in foster care staffing for comparison counties for SFY 1999, 2000, and 2001. As the figure indicates, three comparison counties increased the number of full time equivalent (FTE) staff between SFY 1999 and SFY 2001. County M had an increase of 4.25 positions—from 5.5 to 9.75. County R increased the number of FTE positions by one during the same time period—from 19 to 20. County D increased the number of FTE positions by 10—from 32 to 42.

Exhibit 4.15. Changes in Foster Care Staffing for Comparison Counties



Three waiver counties also increased foster care staff during the same time period, as Exhibit 4.16 indicates. According to the figure the counties increasing staff were Burke, Caldwell, and Scotland. Burke increased its staff from 7.5 FTE's to 8, while Caldwell increased its staff by one, from 8 to 9 FTE's. Scotland increased staff FTE's from 3.0 to 4.1. As the figure indicates, the remaining waiver counties held the number of staff FTE's constant or reduced them. Buncombe County decreased its foster care staff from 29 to 24. Durham County decreased its foster care staff from 34 to 25. Also, according to the figure, Wake County decreased foster care staff from 37 to 34.75.

Exhibit 4.16. Changes in Foster Care Staffing in Waiver Counties



4.5 Reinvestment Strategy

Trust accounts were created as the result of using federal Title IV-E dollars to support the cost of licensed care of non-Title IV-E eligible children. The use of Title IV-E dollars to cover these expenditures freed up state and local funds that had been used to pay these costs. The Title IV-E funds could not have been used to support these costs if not for the waiver. Prior to the waiver, the cost of licensed care for these children was split evenly between the state DSS and the county, up to the standard board rate.⁵ As part of the reinvestment plan, Title IV-E funds at the current matching rate were used to cover the cost of licensed care up to the state board rate. The remaining costs were split equally between state and county funds.

For example, if the federal matching rate for Title IV-E dollars were 63.09%, the remaining 36.91% of the costs would be split evenly between the state and county. The state and the county would each be responsible for 18.455% of the cost of licensed care for these children up to the state board rate. Costs above the board rate would be borne by the county or distributed between the county and the state, depending on the facility where the child resided.

⁵ During the time period covered by the waiver, the state began using Temporary Assistance for Needy Families (TANF) funds to support the cost of licensed care for some of these children. Generally, the TANF funds could be spent only for the first 364 days of licensed care and only for children whose family income was less than 200% of the federal poverty level.

The difference between the prior 50% rate and revised reimbursement rate for state funds went into a county's trust account. During the early years of the waiver demonstration, these state dollars in the trust accounts could be used by counties that were cost-neutral to draw down federal Title IV-E funds. As opposed to the current matching rate for Title IV-E funds, federal funds accessed through the trust account were matched at a 50-50 rate. According to information distributed to waiver counties by DSS, if a county budgeted \$50,000 for maintenance costs for licensed care for these children prior to the waiver, the county would need \$25,000 to draw the remaining \$25,000 in state funds.

Under the reinvestment strategy, and if the current federal match rate for Title IV-E funds were 63.09%, the county and the state would each be responsible for 18.455% of the cost up to the state board rate. Using the \$50,000 example distributed by NC-DSS, under the reinvestment strategy, Title IV-E funds would cover \$32,545 of the cost. State and county funds would each cover \$9,227.50 of the cost. The difference between the \$25,000 that the state would normally pay and the \$9,227.50 (\$15,772.50) was placed in the county's trust account. The \$15,772.50 in state dollars in the trust account could be used to match an additional \$15,772.50 in Title IV-E dollars. In order to use these funds, the county needed to be cost-neutral and submit an amendment to their waiver plan explaining how these funds would be spent.⁶ After the amendment was approved by NC-DSS, the funds could be used. Since the funds were in trust accounts, it was possible for the funds to be carried over from one fiscal year to another.

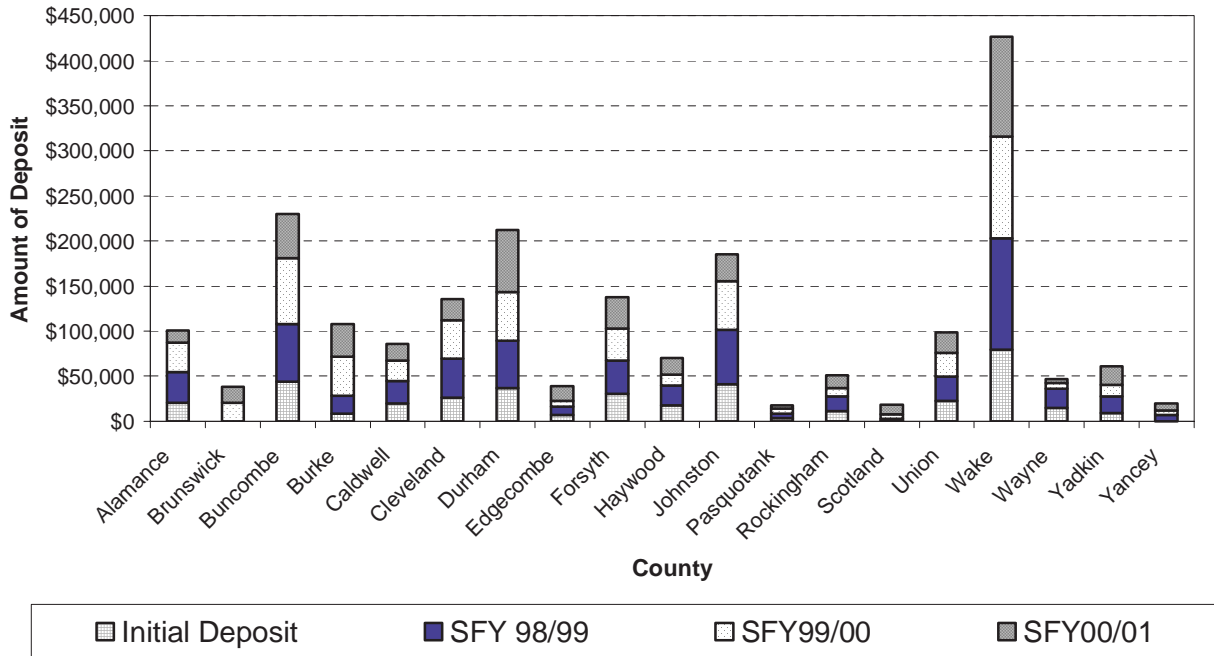
In addition to the state funds placed in the trust account, each county could use the savings in county dollars to draw down federal Title IV-E dollars. These funds—which were referred to as reinvestment funds—had a 50-50 match rate. As in the example above, the \$15,772.50 in county dollars could be used to draw down \$15,772.50 in Title IV-E dollars. Waiver counties did not need to be cost-neutral in order to access these funds. The counties did need to submit an amendment to their waiver plan and receive approval from NC-DSS before using them.

Exhibit 4.17 shows the amount of state dollars deposited to each county's trust account during the waiver. As the figure indicates, two counties—Brunswick and Yancey—did not have deposits during the first year of the waiver because they did not initially convert their non-Title IV-E licensed care cases to Title IV-E funding. Yancey did not convert its cases until July 1999. Brunswick did not convert its non-Title IV-E caseload until April 2000. According to the figure, Wake County,

⁶ The cost-neutrality provision was relaxed during the last year of the waiver. In October 2001 counties were informed that they would have access to the funds in their trust account after they completed an approved plan amendment.

the largest agency participating in the waiver, had more than \$400,000 deposited into its trust account. Buncombe and Durham counties collected more than \$200,000 in trust account deposits, while Johnston County received more than \$185,000 in deposits. Pasquotank and Scotland counties each received close to \$18,000 in trust account deposits.

Exhibit 4.17. Trust Fund Deposits



The same amount was available to each county as reinvestment funds to draw down Title IV-E dollars. Unlike the trust account, counties may not have been able to carry over these funds from one fiscal year to the next. The ability to roll these funds across fiscal years was determined by each county’s fiscal policies and procedures.

The money in trust fund accounts could be used to provide services to Title IV-E and non-Title IV-E eligible children. Exhibit 4.18 shows the amount of federal funds drawn down with state dollars from the trust accounts to provide services to Title IV-E eligible children. As the figure indicates, most of the spending occurred during the last year of the waiver demonstration. There may be several reasons for the increase during the last year. First, after October 2001, counties did not have to be cost-neutral in order to access these funds. Prior to that time, the funds could not be accessed until the cost-neutrality conditions were met. That change in policy during the last year could explain the trust fund expenditures of Alamance and Johnston counties.

Another reason for the increase in trust fund spending during the last year of the waiver is that by that time counties could anticipate what additional ongoing program costs might occur. As a result, they could know that these funds would not be needed to cover unexpected program costs and could be used for new initiatives. Some counties also may have delayed using the funds in the trust account in case the waiver was not cost-neutral. If the demonstration did not maintain cost-neutrality status, the participating counties may have had to provide funds to cover the difference between actual expenditures and the amount needed to be cost-neutral. Counties also may have increased their spending in the last year due to the fact that if the dollars in the trust account were not spent, they would be lost.

Exhibit 4.18. Trust Fund Expenditures for IV-E Eligible Children

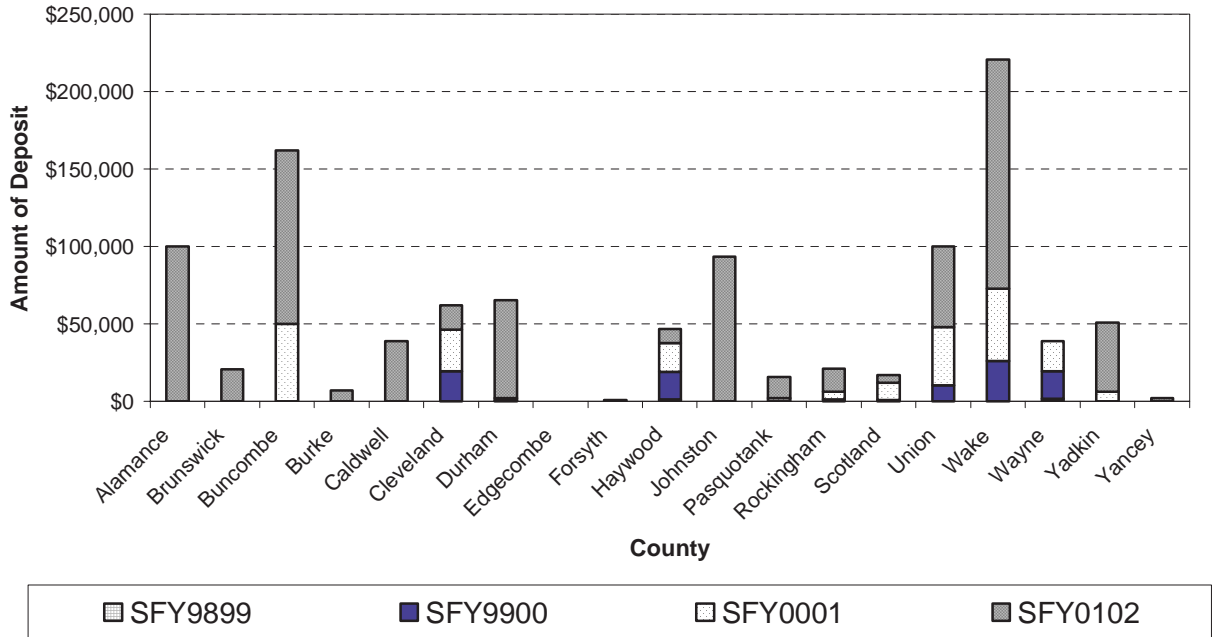


Exhibit 4.19 illustrates the amount of federal funds accessed through the trust accounts that were used to provide services to non-Title IV-E eligible children. The figure also indicates that much of the spending for these children took place during the last year of the waiver. According to the figure, fewer funds were spent providing services to non-Title IV-E eligible children than for those that were eligible. There was variation across counties in spending for Title IV-E eligible and non-Title IV-E eligible children. For example, Buncombe County spent slightly more than \$50,000 from its trust fund account providing services to non-Title IV-E eligible children. That county spent more than \$150,000 from the trust account providing services to Title IV-E eligible children. Counties such as Cleveland and Edgecombe spent more trust fund dollars on non-Title IV-E eligible children than

they spent on children that were Title IV-E eligible. Cleveland County spent more than \$73,000 from the trust account on non-Title IV-E eligible children, while it spent less than \$62,000 from its trust account on Title IV-E eligible children. By the same token, Edgecombe County spent almost \$40,000 from its trust account on non-Title IV-E eligible children, but did not spend any trust account funds providing services to Title IV-E eligible children. If not for the waiver, these federal funds could not have been used to provide services to non-Title IV-E eligible children.

Exhibit 4.19. Trust Fund Expenditures for Non-Eligible Children

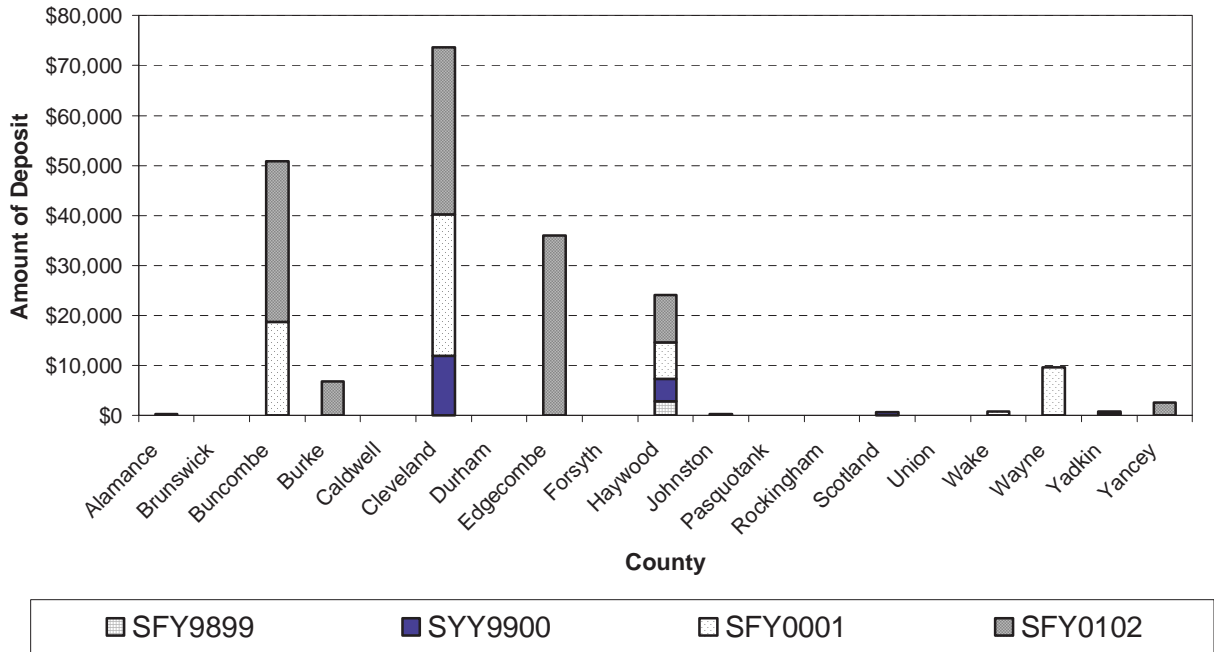
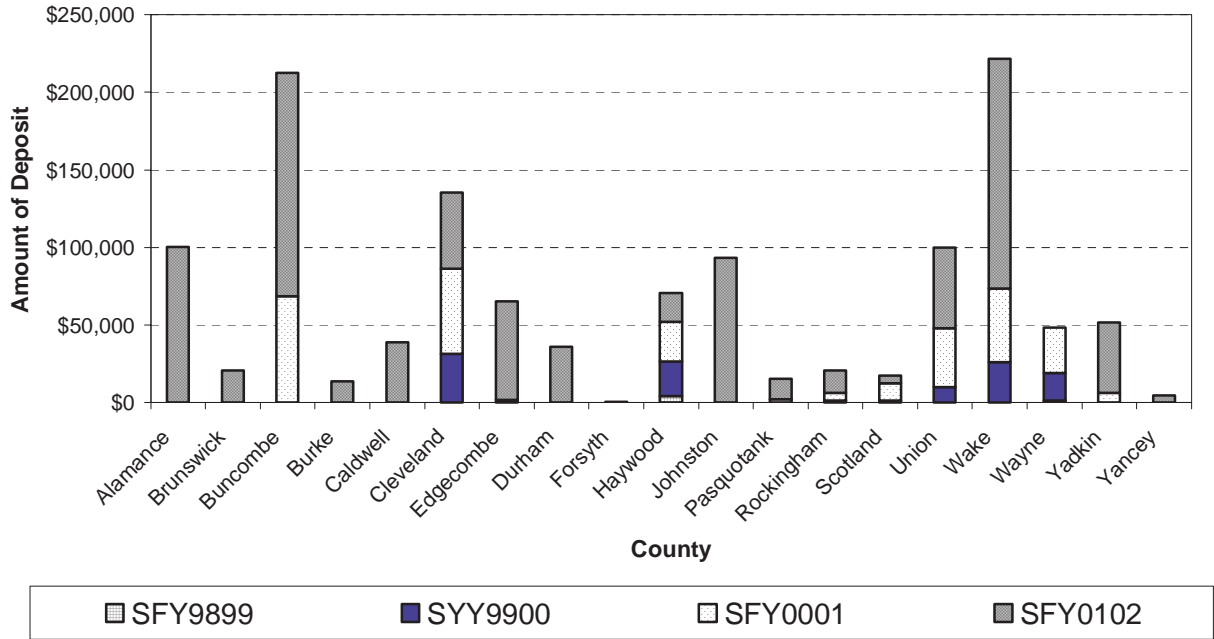
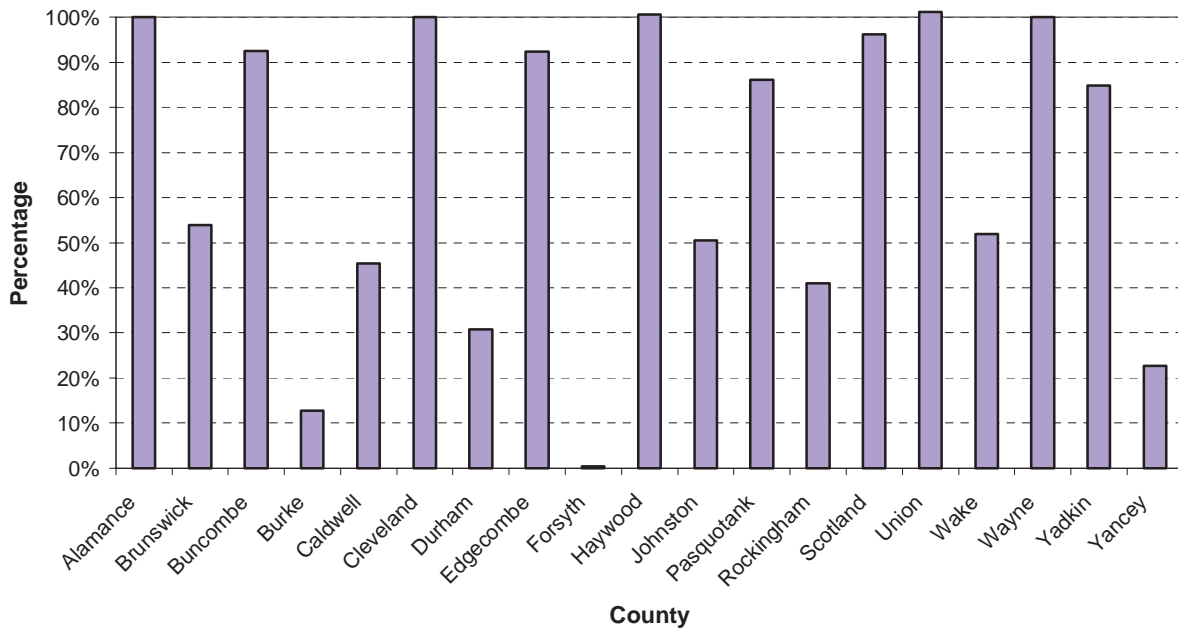


Exhibit 4.20 shows the total amount of trust fund spending—for both Title IV-E eligible children and non-Title IV-E eligible children—by waiver counties. The figure illustrates that most of the spending from the trust accounts took place during the last year of the waiver. The two largest counties—Buncombe and Wake—both spent more than \$200,000 in trust account funds. The figure also indicates that Forsyth County—another relatively large county—spent less than \$1,000 from its trust account.

Exhibit 4.20. Total Trust Fund Expenditures



The proportion of trust funds used varied across counties. As Exhibit 4.21 indicates, five counties—Alamance, Cleveland, Haywood, Union, and Wayne— spent 100% of the funds in their trust account. Three other counties—Buncombe, Edgecombe, and Scotland—spent more than 90% of the funds from their accounts. Forsyth County, on the other hand, spent less than 1% of its funds while Burke County spent 13% and Yancey spent 23%. Brunswick, Johnston, and Wake counties each spent more than 50% of their trust accounts. The reason for the variation is not clear. Brunswick County, which could not achieve cost-neutrality due to the absence of charges for administrative costs during the base year, spent 54% of its trust account. Yancey County, which also could not achieve cost-neutrality due to not submitting any reimbursement claims for administrative costs during the base year, spent proportionately less than half as much as Brunswick County.

Exhibit 4.21. Percentage of Trust Fund Used

In addition to the trust accounts, the reinvestment strategy called for counties to use their savings resulting from using Title IV-E dollars to pay maintenance costs for non-Title IV-E eligible children to draw down additional funds to pay for services. Even though it would not have resulted in an increase in local dollars, only about half of the waiver counties used these reinvestment funds. Also, counties did not have to be cost-neutral to use these funds. They did need to have prior approval from DSS before using these funds.

Exhibit 4.22 shows the amount of reinvestment expenditures in county funds for Title IV-E eligible children. The county funds were matched 50-50 with federal Title IV-E dollars. As the figure indicates, only nine counties used reinvestment dollars. Also, as the figure indicates, most but not all of the reinvestment dollars were used during the last year of the waiver demonstration. According to the figure, Durham County used \$88,337 in county funds as reinvestment dollars. The bulk of those dollars—\$48,901—were spent during SFY 2000-2001. Durham spent \$31,897 in county reinvestment funds on these children during the last year of the waiver. Alamance County, on the other hand, spent almost all of its \$55,216 in reinvestment funds for these children during the last year of the waiver.

Exhibit 4.22. Reinvestment Expenditures for IV-E Eligible Children

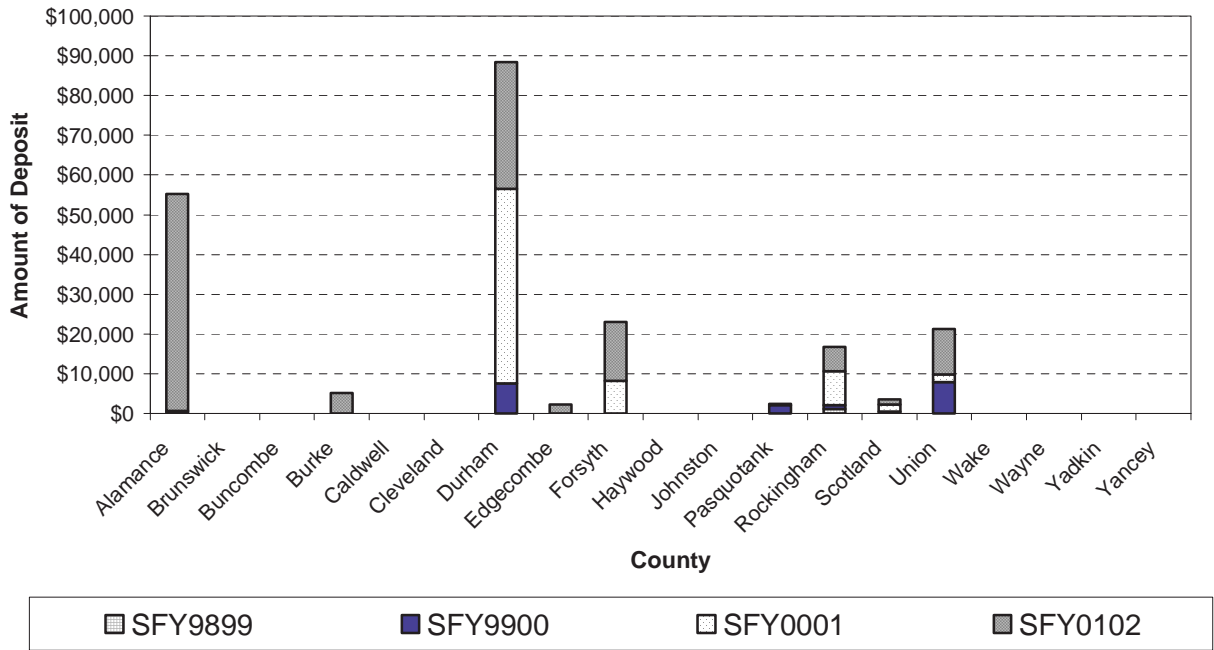


Exhibit 4.23 illustrates the amount of county reinvestment funds spent providing services to non-Title IV-E eligible children. Just as fewer trust fund dollars were spent on non-Title IV-E eligible children, fewer reinvestment dollars were spent on non-Title IV-E eligible children. As the figure indicates, only four counties—Burke, Durham, Edgecombe, and Forsyth—used county reinvestment dollars to provide services to these children. Most of the reinvestment expenditures were made during the last year of the waiver demonstration. As the figure indicates, Durham County made reinvestment expenditures in three state fiscal years. Of the \$14,148 in county reinvestment funds it spent on providing services to these children, \$7,436 was used in SFY 1999-2000 and \$4,000 was used in SFY 2000-2001. The remaining \$2,712 was spent during the last year of the waiver. Edgecombe County spent almost as much as Durham County—\$14,143—but made all of its expenditures during the final year of the demonstration.

Exhibit 4.23. Reinvestment Expenditures for Non-IV-E Eligible Children

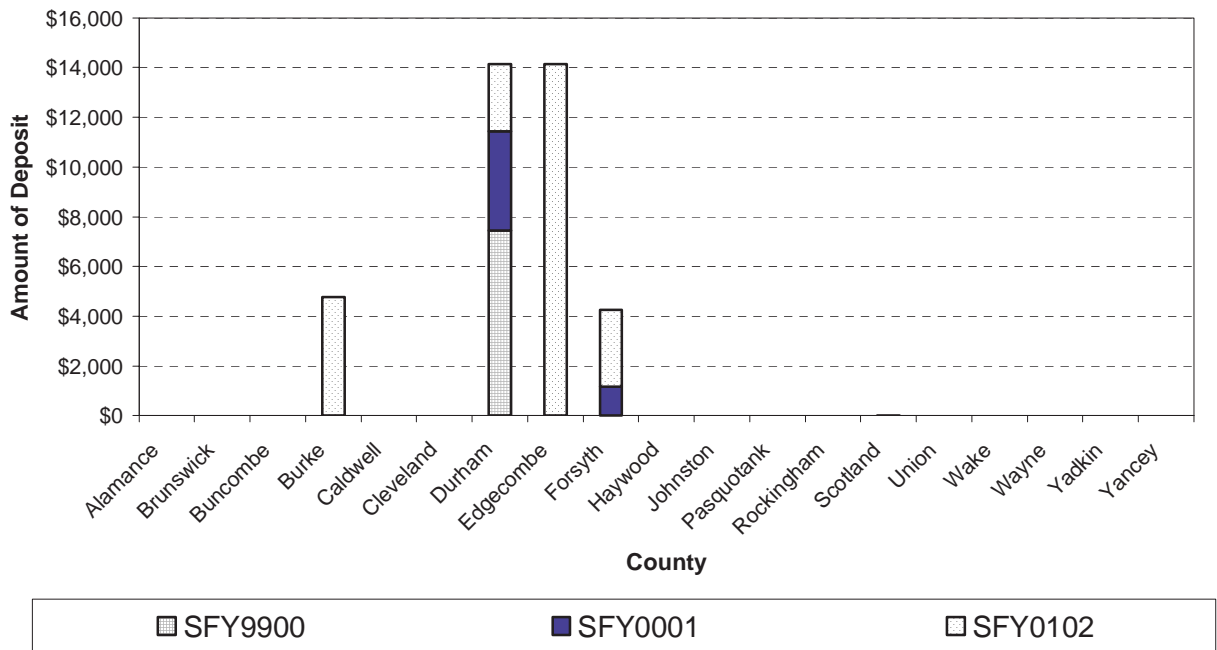
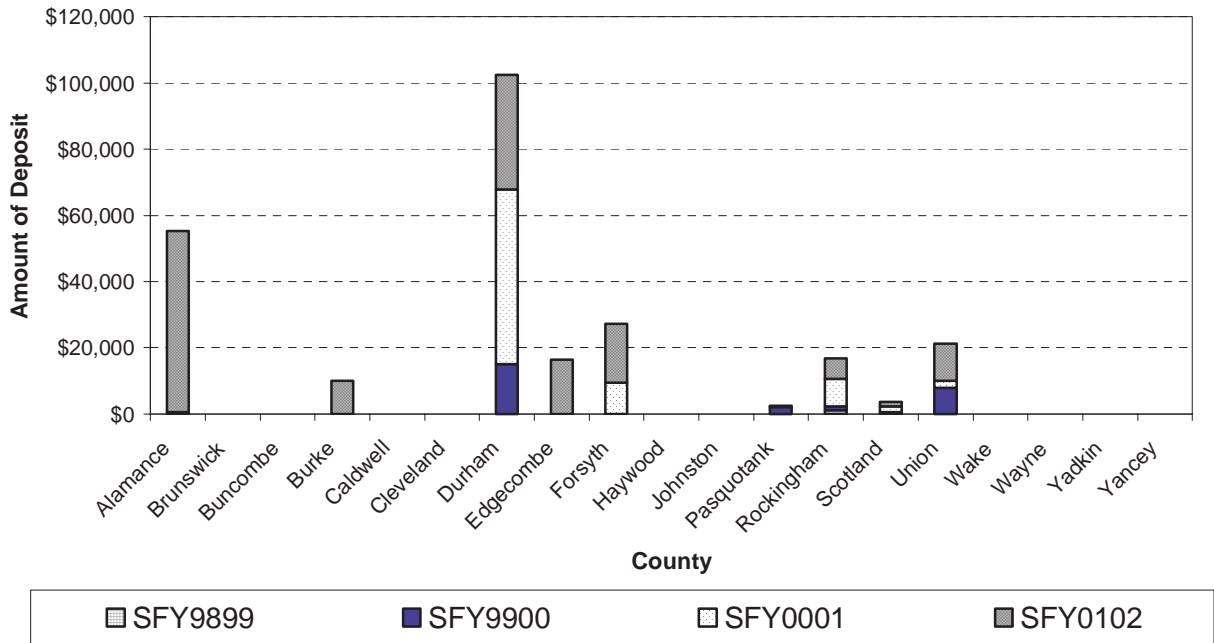


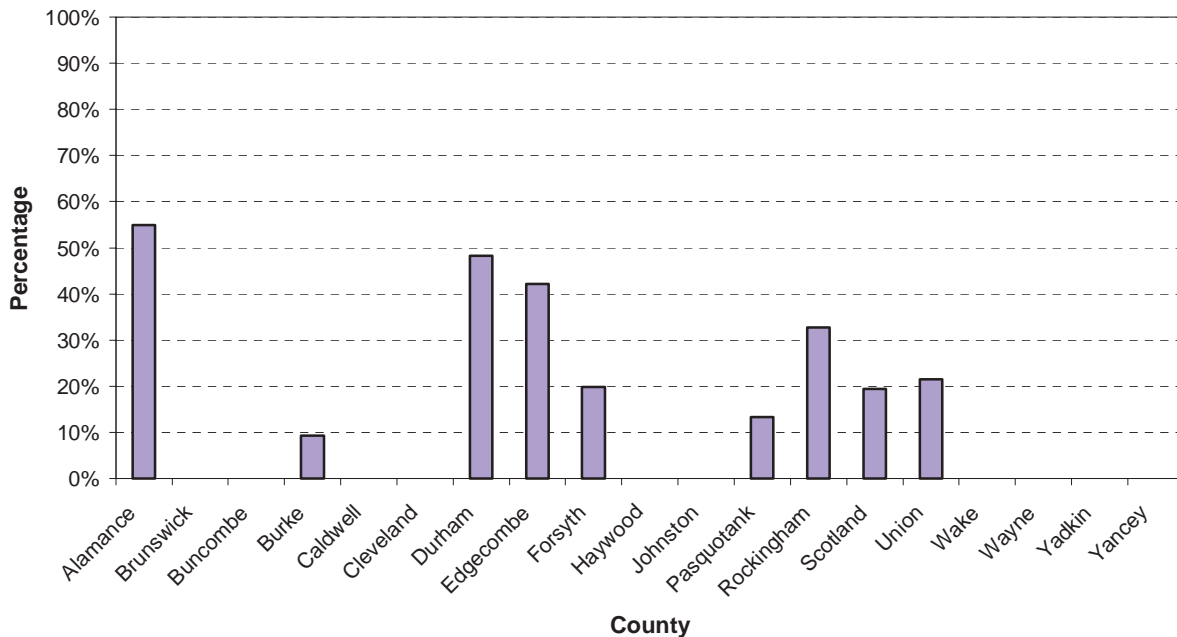
Exhibit 4.24 shows the total county-funded reinvestment expenditures for waiver counties. As the figure indicates, Durham County spent more than \$100,000 in county reinvestment dollars. Alamance County spent slightly more than half that much—\$55,216. Two counties, Forsyth and Union, spent more than \$20,000 in county reinvestment funds. While Forsyth spent \$27,303 in county reinvestment dollars, it spent less than \$1,000 from its trust account. Pasquotank County used \$2,382 in local reinvestment dollars, while Scotland used \$3,542.

Exhibit 4.24. Total Reinvestment Expenditures by Waiver Counties



Counties could spend the same amount in local reinvestment dollars that they could spend in state dollars from their trust account. The amount each could spend was shown earlier in Exhibit 4.17. Exhibit 4.25 shows the percentage of county reinvestment dollars spent. As the figure indicates, ten counties did not spend any reinvestment dollars. Of the counties that did use reinvestment dollars, Alamance County used the highest amount proportionately. It spent 55% of its reinvestment funds. Two counties, Durham and Edgecombe, used more than 40% of their local reinvestment funds. Burke County used nearly 10% of its local reinvestment dollars, while Pasquotank County spent 13% of its local reinvestment dollars. Forsyth, Scotland, and Union counties spent close to 20% of their local reinvestment funds.

The overall reinvestment strategy tended to work, but it may not have been completely successful in the sense that counties did not use all of the funds they could have. Counties appeared to have been reluctant to use their local reinvestment dollars. Instead, these local reinvestment dollars were not spent, resulting in a decrease in social service expenditures. At the same time, the counties participating in the waiver also were somewhat reluctant to use trust fund dollars. Nine of the waiver counties spent 55% of the funds in their trust account or less. One county spent less than 1% of its trust funds. That same county did use more than \$27,000 of its reinvestment funds.

Exhibit 4.25. Percentage of Reinvestment Funds Expended

The reason that counties did not use their trust funds or reinvestment dollars is not clear. A number of counties may have delayed using trust accounts because they were not cost-neutral. Other counties may have resisted using the dollars because their availability appeared “too good to be true” and they feared that at some point they would have to use local funds to cover the expenditures. Some counties may not have understood the trust account or reinvestment process.

4.6 Comparative Cost Experiences of Active Waiver and Other Waiver Counties

Active waiver and other waiver counties had differences in both maintenance and administrative costs. In the final three years of the demonstration, active waiver counties had a lower rate of growth of both maintenance and administrative costs than other waiver counties. Even when the federal share of maintenance costs for non-IV-E eligible children are included, active waiver counties were able to achieve a rate of increase in expenses nearly as low as comparison counties that did not use IV-E dollars to cover these expenditures. This lower rate of growth, especially in terms of maintenance costs, is significant given that the waiver counties, overall, had a higher rate of growth in this area during the final year of the demonstration than did comparison counties.

Exhibit 4.26 presents the rate of growth in federal IV-E maintenance costs among comparison, active, and other waiver counties. The rate of growth in maintenance costs is calculated

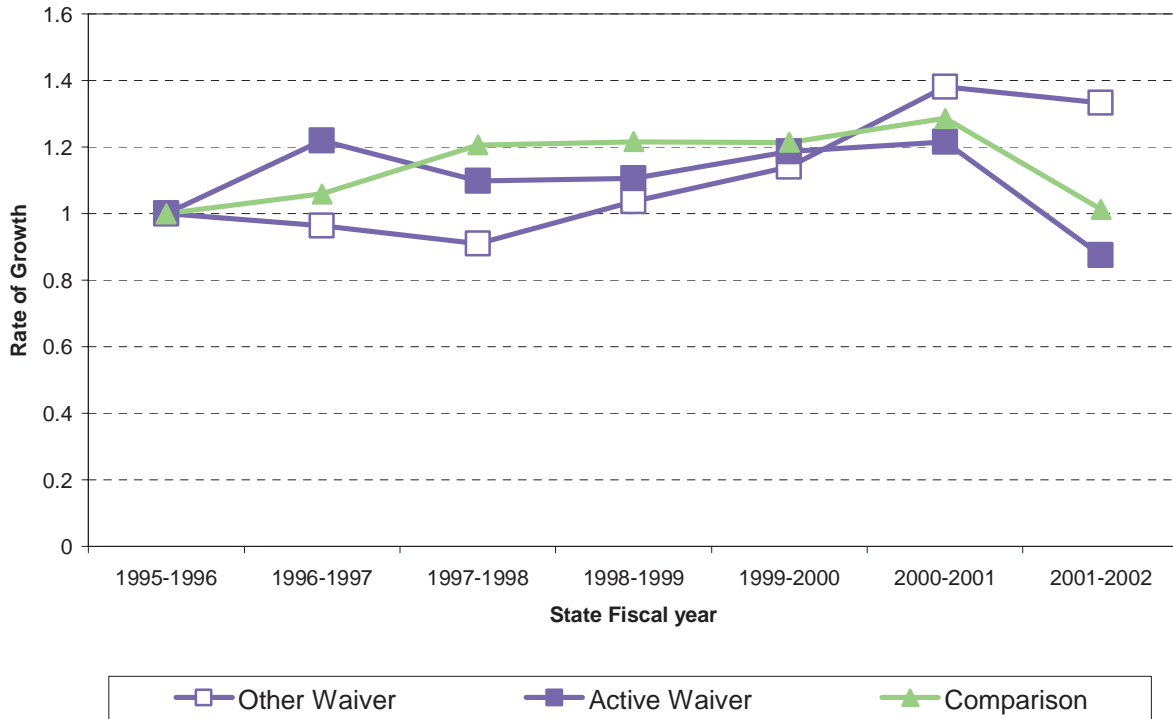
by dividing the maintenance costs for a group of counties for a particular SFY by the maintenance costs for that group during the base fiscal year (1995-1996). A ratio greater than one indicates increasing expenses are increasing, whereas a ratio of less than one indicates that the costs in that year of the demonstration were less than during the base year. A ratio of one indicates that the costs were the same as during the base year.

The costs illustrated in Exhibit 4.26 do not include the maintenance expenses for non-Title IV-E eligible children in waiver counties. As the exhibit indicates, active waiver counties had an increase in the rate of growth of maintenance costs during SFY 1996-1997. This increase was larger than that for comparison counties. Other waiver counties had a decrease in maintenance costs during the transition year before the waiver.

By the first year of the waiver, the maintenance costs for active waiver counties was only slightly higher than the costs that group experienced during the base year. Maintenance costs for comparison counties were about 1.2 times higher than during the base year. The maintenance costs for other waiver counties continued to fall during the first year of the waiver. By the second year of the demonstration, the rate of growth in maintenance costs in the other waiver counties approached that of active waiver counties. Maintenance costs in comparison counties continued at about 1.2 times those experienced during the base year.

By the third year of the waiver, the rate of growth for all three groups of counties was about 1.2 times that of the base year. This reflected a small increase in the rate of growth for active waiver counties but a much large change for other waiver counties. The rate of growth in maintenance costs for comparison counties during this time period was only marginally higher than that for the prior two years of the demonstration.

Exhibit 4.26. The Rate of Growth in Maintenance Costs Among Comparison, Active Waiver, and Other Waiver Counties

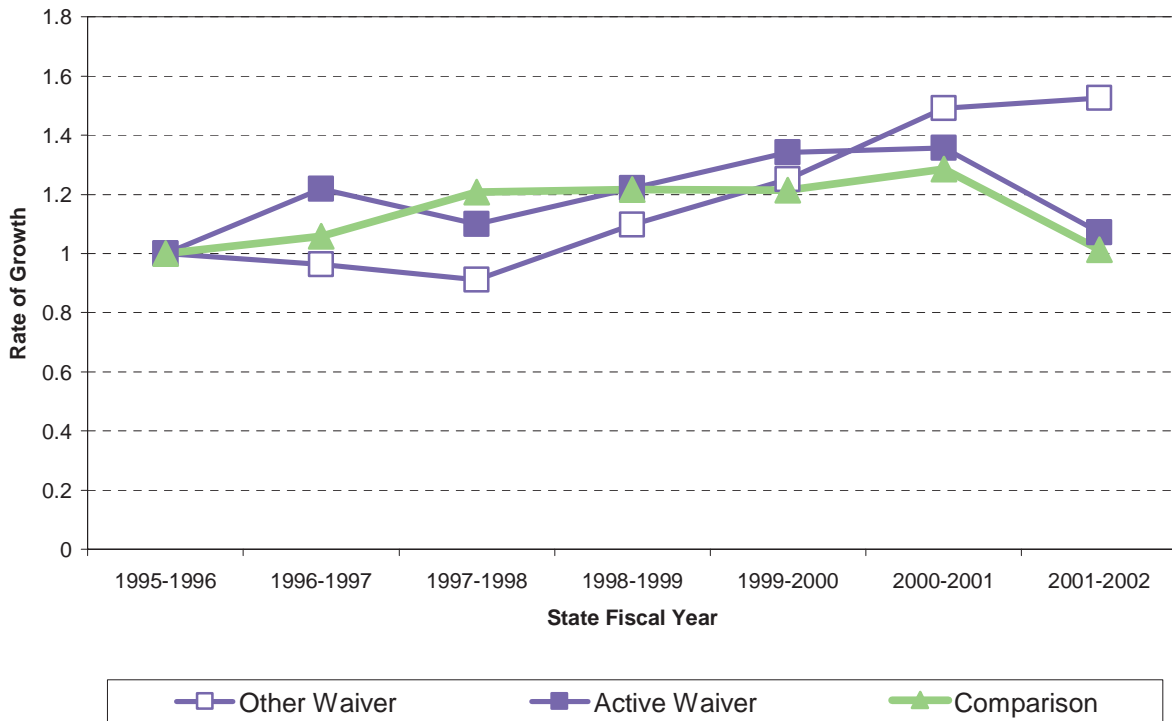


As the figure indicates, by the fourth year of the demonstration, the rate of growth in maintenance costs for active waiver counties was about the same as that for the previous year. The maintenance costs for this group of counties during the fourth year of the demonstration was only slightly higher than those for the base year. The rate of increase in maintenance costs for comparison counties showed a slight increase during the fourth year. There was a jump in the rate of growth of maintenance costs for other waiver counties over this time period. The rate of growth for these counties increased from slightly below 1.2 times that of the base period to about 1.4 times the base period maintenance costs.

All three groups of counties had a decrease in the rate of growth of maintenance costs during the last year of the demonstration, but active waiver counties had the largest decline in costs. During the fifth year of the waiver, the federal share of maintenance costs for IV-E eligible children was about 85% of that during the base year. Maintenance costs for comparison counties in the fifth year were almost the same as during the base year. For other waiver counties, maintenance costs were about 1.3 times those experienced during the base year.

Exhibit 4.27 illustrates the changes in the rate of growth of maintenance costs for the three groups of counties when the maintenance expenses for non-IV-E eligible children are included. As the exhibit indicates, even when including this group of children, the rate of growth in maintenance costs for active waiver counties is only slightly higher than those for the comparison group of counties. As the exhibit indicates, during the fifth year of the demonstration, the rate of growth in maintenance costs for IV-E eligible and non-IV-E eligible children for active waiver counties was only 1.07 times higher than the rate of growth for the same group of counties during the base year. The base year for those counties included only IV-E eligible children. During the same time period, maintenance costs for IV-E eligible children in comparison counties were 1.01 times higher than the base period. Maintenance costs for other waiver counties were 1.5 times higher than those during the base period.

Exhibit 4.27. The Rate of Growth in Total IV-E Maintenance Costs Among Comparison, Other Waiver, and Active Waiver Counties

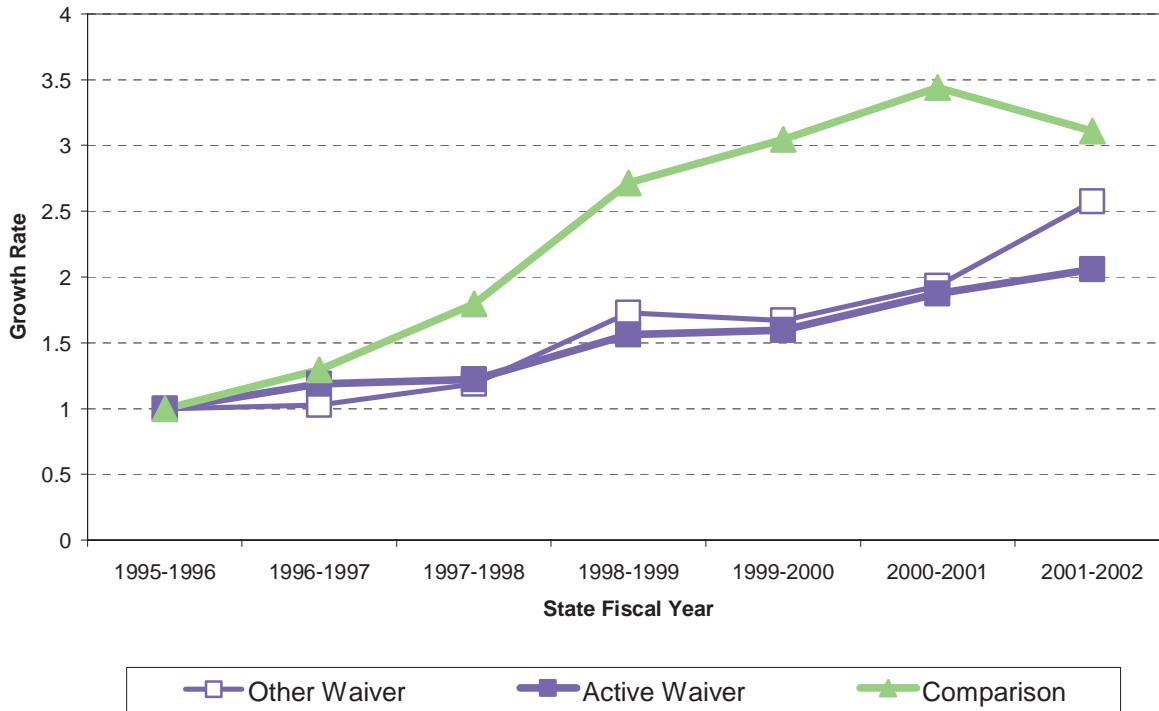


This pattern of cost experiences suggests that maintenance costs in active waiver counties, even when including the federal share of maintenance costs for non-IV-E eligible children, were

nearly less than those for the comparison counties. The counties in the active waiver group were able to reduce the federal share of out-of-home maintenance for both groups of children to close to what the counties as a group spent in IV-E dollars only during the base year. As the figure indicates, comparison counties experienced a decrease in maintenance costs during the final year of the waiver. This was due to a decline in the number of IV-E eligible children in these counties that occurred, in part, when a number of children who had been covered by IV-E were switched to a program where their maintenance costs were shared between the state and the county. As part of the reinvestment strategy, federal IV-E dollars were used to cover the maintenance costs of IV-E eligible children as well as a portion of the expenses for those that had been covered solely by state and local dollars.

According to data on which Exhibit 4.28 is based, all three groups of counties saw their administrative costs grow over the life of the demonstration. However, both groups of waiver counties had much lower rates of growth in administrative costs than the comparison group, and active waiver counties had a lower rate of growth than other waiver counties. During the fifth year of the waiver, administrative costs for active waiver counties were approximately double the level during the base period. For the same time period, administrative costs for other waiver counties were about 2.5 times those for the base year. For comparison counties, administrative costs fell during the fifth year of the waiver from a high of 3.5 times those for the base year to 3.0 times the costs during the base year.

Exhibit 4.28. The Rate of Growth in Administrative Costs Among Comparison, Other Waiver, and Active Waiver Counties



These analyses collectively indicate that active waiver counties were better able to control their maintenance costs than other waiver counties. In comparing the maintenance costs for IV-E eligible children, active waiver counties had a lower rate of growth during the final year of the waiver than either of the other two groups. The active waiver counties also had a lower rate of growth in administrative costs over the life of the waiver than other waiver counties.

4.7 Summary and Conclusions

North Carolina as a whole was able to achieve cost-neutrality over the five years of the Title IV-E waiver demonstration. Through a reinvestment strategy, state and county funds were available to draw down additional Title IV-E dollars to provide services. These services were provided to Title IV-E and non-Title IV-E eligible children and would likely not have been provided if not for the waiver.

A review of maintenance costs for licensed care for children in waiver counties revealed several interesting trends. First, *waiver counties appear to have been able to reduce the number of children in licensed care*. As a result the federal share of their Title IV-E maintenance costs has been lower than those for comparison counties. Toward the end of the demonstration, waiver counties

have had substantially higher average costs for a child in licensed care. This suggests that they have been using higher priced and more restrictive forms of care for children. Regardless of the costs or restrictions, this level of care may have been appropriate for some of these children because of the changing risk profile described in Chapter 2 (i.e., children entering care later in the demonstration period faced greater challenges). As a result of the higher costs of care, the total federal share of out-of-home maintenance was close to, and in some months higher than, the costs for comparison counties.

At the end of the demonstration, the amount of federal funds waiver counties were spending on licensed care was higher than the projected amount. During this period, in fact, waiver counties spent \$1.7 million more on licensed care than they were projected to spend. The primary reason for this appears to be the decision to use reinvestment funds to cover the cost of care of non-Title IV-E eligible children. Another factor appears to be a review in late 2001 by many counties of the children in Title IV-E licensed care. As a result of this review, a number of children were switched from Title IV-E. This appears to have reduced the federal costs of licensed care for comparison counties.

In terms of administrative costs, waiver counties have been able to control their growth, particularly in contrast to comparison counties. This is primarily due to the experiences of the two groups of counties during the base year. During this period of time, administrative costs for waiver counties were substantially higher than those for comparison counties. By the time the waiver demonstration began, administrative costs in the comparison group rose to the level of the waiver counties. This growth in costs during the pre-waiver period allowed the waiver counties to remain cost-neutral in terms of administrative costs.

A number of demonstration counties appear to have been reluctant to use trust account or reinvestment funds. While five counties spent 100% of their trust account funds and three other counties spent between 90% and 100%, one county spent less than 1% of its trust account, a second county spent 13%, and a third spent only 23% of its trust account. Most of the trust account funds were spent during the final year of the waiver and most of the spending provided services to Title IV-E eligible children. Less than half of the counties used any reinvestment funds. Of those that did use reinvestment funds, the county that used the highest percentage of the available funds spent only slightly more than 50% of the amount it could have.

The nature of the waiver and its limitation to a five-year demonstration period posed some implementation challenges for NC-DSS and the 19 participating counties that may be reflected in these costs experiences. Initially, counties were urged to be restrained in making changes in policy and practice until it became clear that costs in the demonstration counties were falling well below

cost projections based on the experience of the comparison counties. As resources began to accumulate, many counties remained cautious even though they were in a very favorable financial position. This conservatism seemed to be due to concerns that funding commitments made during the demonstration period would extend beyond the end of the waiver and county resources might be required to meet those commitments. Toward the end of the demonstration period, however, increased spending levels in some counties suggested that they were seeking to utilize resources before they were lost at the end of the five-year period. Thus, it is not clear that a new and enduring pattern of resource utilization ever really emerged because of the generally slow startup and the time limit.

The implementation of the demonstration also was complicated by other factors. In 11 of 19 counties, a change in the leadership of the county department of social services occurred during the demonstration period. This meant that often the person who originally committed the county to participating in the demonstration was replaced by someone who may have lacked the same degree of commitment or who did not understand the opportunity presented by the waiver. Turnover also occurred among county fiscal officers. This, in addition to the substantial changes in reimbursement policies resulting from the waiver, seemed to make many persons in these positions hesitant to support aggressive implementation of changes in fiscal policy associated with the waiver. These and other factors probably account for the slow start overall and the limited pursuit of certain policy options, such as assisted guardianship.