LEGISLATIVE BUDGET BOARD
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FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

February 23, 2005

TO: Honorable Suzanna Gratia Hupp, Chair, House Committee on Human Services

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB478** by Goodman (Relating to the operation of the child protective services and foster care system.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB478, As Introduced: a negative impact of ($17,090,589) through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	($6,971,691)
2007	($10,118,898)
2008	($20,700,586)
2009	($27,899,304)
2010	($37,737,838)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from *GENERAL REVENUE FUND* 1	Probable (Cost) from *GENERAL REVENUE FUND* 1	Probable Savings from *FEDERAL FUNDS* 555	Probable (Cost) from *FEDERAL FUNDS* 555
2006	$0	($6,971,691)	$0	($1,994,910)
2007	$21,544,248	($31,663,146)	$5,619,692	($9,369,134)
2008	$75,522,802	($96,223,388)	$21,022,206	($29,075,508)
2009	$126,175,438	($154,074,742)	$35,247,512	($46,513,437)
2010	$142,210,739	($179,948,577)	$40,923,200	($56,528,232)

Fiscal Year	Change in Number of State Employees from FY 2005
2006	53.5
2007	(208.6)
2008	(1,066.8)
2009	(1,919.0)
2010	(2,309.0)

Fiscal Analysis

Section 2 would add Chapter 45, Privatization of Substitute Care Services, to the Human Resources Code. Section 45.002 would require the Department of Family and Protective Services (DPFS) to privatize substitute care services by September 1, 2009. Section 45.051 would require the agency, by March 1, 2006, to develop a reorganization plan that supports privatization and includes provisions for reducing duplication of monitoring activities. Section 45.052 would require DFPS to examine the benefits of using a single private agency case manager or case management team to manage substitute care services for each child and family. Section 45.053 would require the agency to create alternative financing and payment arrangements for substitute care providers. Section 45.054 would require the agency, and the Health and Human Services Commission (HHSC), to adopt a substitute care services transition plan by March 1, 2006.

Section 45.055 would require DFPS to implement privatization on a regional basis. It would also require the agency to conduct a readiness assessment and certify in writing that nonprofit providers are ready to provide services and assume all transferred responsibilities. Section 45.102 would require the transition plan to include (a) incentives for substitute care providers to develop new services and supports in anticipation of privatization (b) an implementation plan for the transfer of all DFPS foster homes to private child-placing agencies (c) a process for verifying service needs for each child transferred to private child-placing agencies and (d) alternative financing and payment arrangements for substitute care providers. Section 45.151 would abolish Chapter 45 on September 1, 2010.

Section 3 would require the HHSC Executive Commissioner to adopt rules establishing contracting guidelines that include performance outcomes. **Section 4** would require DFPS to establish a quality assurance program using real-time data to evaluate performance. **Section 5** would require the agency to use real-time technology to screen possible placement options for a child and institute a quality assistance system. **Section 6** would authorize the agency to retain any child support funds recovered by the Title IV-D agency in substitute care cases. **Section 9** would require the agency to develop a medical passport for each foster child. **Section 10** would require the agency to immediately seek private child-placing agency services when the permanency plan is adoption.

Section 13 would establish a State Advisory Committee on Licensing. **Section 14** would require DFPS to classify and assign a priority designation to each minimum licensing standard. It would also require residential child-care providers to immediately report missing children and serious incidents. **Section 16** would require the agency to hold an exit conference on completion of a residential child-care facility (RCCF) inspection. **Section 17** would establish minimum qualifications for RCCF inspectors and investigators, and require the agency to begin competency-based training and examinations by January 1, 2006.

Section 18 would require DFPS to verify the compliance history of each licensing applicant. **Section 19** would prohibit RCCFs from employing a person who is not eligible to receive a license or certification. **Section 20** would prohibit DFPS from issuing a new license or certification for five years following revocation. **Section 21** would limit RCCF civil liability for non-economic damages to $250,000 for each person and $500,000 for each single occurrence of bodily injury or death.

Section 22 would require DFPS, no later than December 1, 2005, to develop a plan to improve CPS investigation training, protocols, and coordination with law enforcement agencies. The plan must be finalized by a workgroup that includes DFPS employees, LEA professionals, and court employees.

Methodology

Section 2. There would be multiple fiscal impacts for this section that would privatize certain child welfare functions. For the section as a whole: the General Revenue Fund savings would be $21.5 million in 2007, $75.5 million in 2008, $126.2 million in 2009, and $142.2 million in 2010; the General Revenue Fund cost would be $3.1 million in 2006 rising to $178.9 million in 2010.

<u>Substitute Care Services.</u> It is assumed that substitute care services for children in temporary and permanent managing conservatorship would transition to private contractors on a monthly rollout schedule during fiscal year 2007. DFPS would save 202.2 FTEs in 2007 and 364.0 FTEs each

following year. This estimate is based on the agency's methodology that allocates 8.8% of the direct delivery workforce to substitute care services (foster and adoptive home development). It is assumed that the transition would be cost neutral. The total savings/costs would equal $11.2 million in 2007 and $20.2 million each following year. Fringe benefit savings/costs totaling $2.0 million in 2007 and $3.7 million each following year are included in this estimate. Fringe benefit appropriations would move from the Comptroller's Office and the Employees Retirement System to DFPS.

Case Management Services. It is assumed that case management services for children in temporary and permanent managing conservatorship would transition to private contractors on a monthly rollout schedule from the middle of fiscal year 2007 through 2009. DFPS would save 85.9 FTEs in 2007, 613.8 FTEs in 2008, 1,203 FTEs in 2009, and 1,473 FTEs in 2010. This estimate is based on the agency's methodology that allocates 35.6% of the direct delivery workforce to case management (conservatorship, including adoption) services. It is assumed that the transition would be cost neutral. The total savings/costs would equal $4.5 million in 2007, $34.1 million in 2008, $66.9 million in 2009, and $81.9 million in 2010. Fringe benefit savings/costs totaling $0.8 million in 2007, $6.2 million in 2008, $12.1 million in 2009, and $14.8 million in 2010 are included in this estimate. Fringe benefit appropriations would move from the Comptroller's Office and the Employees Retirement System to DFPS.

Family-Based Safety Services. It is assumed that family-based safety services (in-home case management) would transition to private contractors on a monthly rollout schedule from the middle of fiscal year 2007 through 2009. DFPS would save 38.0 FTEs in 2007, 274.0 FTEs in 2008, 537.0 FTEs in 2009, and 657.0 FTEs in 2010. This estimate is based on the agency's methodology that allocates 15.9% of the direct delivery workforce to family-based safety services. It is assumed that the transition would be cost neutral. The total savings/costs would equal $2.0 million in 2007, $15.2 million in 2008, $29.8 million in 2009, and $36.5 million in 2010. Fringe benefit savings/costs totaling $0.4 million in 2007, $2.8 million in 2008, $5.4 million in 2009, and $6.6 million in 2010 are included in this estimate. Fringe benefit appropriations would move from the Comptroller's Office and the Employees Retirement System to DFPS.

Child Placing Agency (CPA) Rate Differential. It is assumed that foster care payments would rise as more than 5,000 foster children (FTEs) move from DFPS to privately managed foster care settings during fiscal year 2007. This is because foster care rates are higher for privately managed foster care services. The total increase in cost would be $5.8 million in 2007, $16.6 million in 2008, $27.3 million in 2009, and $41.6 million in 2010. This estimate is based on agency caseload projections.

Foster Day Care Purchased Services. It is assumed that foster day care purchased services dollars relating to substitute care and family-based safety services would transfer to private contractors on a monthly basis during fiscal years 2007 and 2008. It is also assumed that the transition would be cost-neutral. The total savings/costs would be $2.5 million in 2007, $7.2 million in 2008, and $11.8 million each following year. This estimate is based on agency projections.

Other Purchased Services. It is assumed that other purchased services dollars relating to substitute care and family-based safety services would transfer to private contractors on a monthly basis during fiscal years 2007 and 2008. It is also assumed that the transition would be cost neutral. The total savings/cost would be $7.0 million in 2007, $19.8 million in 2008, and $32.7 million each following year. This estimate is based on agency projections.

Residential Child Care Licensing Staff. DFPS indicates that ten additional FTEs would be needed to provide adequate regulatory oversight of the expanded private system of residential child care services and to maintain a ratio of one monitoring worker for every 20 licensees. The total cost would be $0.5 million each year.

Oversight Responsibilities. DFPS indicates that additional FTEs would be needed to manage contracts, process payments, conduct audits and provide quality assurance for the new system. These include 27.5 FTEs in fiscal year 2006 (total salary = $1.2 million), 91.5 FTEs in 2007 (total salary = $3.7 million), and 159.0 FTEs each following year (total salary = $6.5 million). The total cost would be $2.1 million in 2006, increasing to $10.0 million in 2010.

Information Technology Projects. DFPS indicates that modifications to existing automated systems would be needed to develop secure interfaces with external providers. The total cost to modify the IMPACT automated system would be $1.5 million. This cost would be incurred during fiscal year 2006.

The impact of **Section 3** (contract guidelines) is included under Section 2 above. **Section 4** (quality assurance program) could have a cost; however, it has not been estimated at this time. **Section 5** (real-time technology/quality assistance system) would cost $0.9 million in 2006 and $0.3 million each following year. **Section 9** (medical passport system) would have a one-time cost of $0.5 million for information technology.

Section 14 would cost $0.4 million for classification/priority designation system and 13 additional FTEs ($0.4 million per year) to develop and process reports of missing children and serious incidents. **Section 16** would cost $1.9 million in 2006 decreasing to $0.2 million in 2010 for exit conferences. **Section 17** would cost $0.2 million in 2006 and $0.1 million for each following year for training and other inspector requirements; one additional FTE. **Section 18** would cost $0.1 million each year, with one additional FTE for verification of compliance history. **Sections 19 and 20** would cost of $0.1 million each year and require one additional FTE for employment standards.

It is assumed that all remaining provisions would have no significant impact. It is assumed that TANF Federal Funds will not be available to finance any of the activities above; therefore General Revenue Funds are used in place of TANF Federal Funds ($1.9 million in 2006 rising to $3.9 million in 2010). It is also assumed that Child Care Development Fund Federal Funds will not be available; therefore General Revenue Funds are used in place of Child Care Development Fund Federal Funds ($0.6 million in 2006 decreasing to $0.3 million in 2010).

Technology

A total cost of $7,293,633 in information technology projects is included in the estimates noted above. Most of the costs would occur in 2006.

Additional cost for workstation setup and maintenance for new staff are assigned to each section where staff increases are identified. Ongoing maintenance of desktop/laptop equipment is approximately $1,300,000 per year for all new staff positions created by this bill. Those costs are identified in each specific section that projects new staff increases and they are netted against savings that are for projected staff decreases. Technology cost-savings are acknowledged as staff reductions occur by section. These cost savings are calculated by reversing the workstation ongoing maintenance costs categories and defining them as savings. Staff reductions of 2,494 FTEs in the out years reduced ongoing maintenance cost of workstations by approximately $8.7million per year and result in the approximate $7 million dollar technology savings for 2009 through 2011.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 529 Health and Human Services Commission, 530 Department of Family and Protective Services

LBB Staff: JOB, CL, LR, PP, NM, RC, KJG