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ABSTRACT

Since the Family and Children's Services Block Grant and the per diem rate methodology have not been effective, especially in the wake of the increasing number of children entering foster care, this policy brief explores ways in which New York State's child welfare system should allocate child welfare dollars to counties and providers to produce better outcomes for children and families and presents a funding proposal for child welfare services. A study of managed care approaches in use throughout the United States identified service models for consideration. Review of these models and a study of the state's child welfare needs resulted in the following recommendations: (1) New York State should fund the Maximum State Aid Rate per diems for all foster care services using the direct care parameters set by the state in its model budget for fiscal year 2001; (2) the state should establish and monitor performance outcomes to ensure quality of care and services for fiscal year 2001; and (3) New York State should develop a case rate payment system for foster care services. (Contains 19 references.) (SLD)



Child Welfare Financing:

Looking Beyond
the New York State
Family and
Children's Services
Block Grant

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Introduction

New York State's child welfare system is feeling pressure from the increasing number of children entering foster care and insufficient State dollars available in the Family and Children's Services Block Grant (Block Grant). Signed into law in 1995, the Block Grant consolidates funding streams for various child welfare services and caps the amount of State funding available for these services. Since its inception the number of reports of abuse and neglect statewide have increased by 13.5%.¹ Recognizing this increase in demand for investigations of suspected abuse and neglect, the Governor and the Legislature agreed to remove child protective services from the Block Grant and create uncapped funding for these services in 1998. This allowed the counties to pay for additional caseworkers needed to properly investigate all reports of abuse and neglect. At the same time, and in part because of increased numbers of investigations and reduced spending on preventive services, the number of children being admitted to foster care has increased by 21.2%.² Yet funding for foster care services remains capped as part of the Block Grant.

At the same time that the demand for child welfare services has increased statewide, the State has decreased its use of general fund dollars to finance the Block Grant and has replaced State dollars with federal welfare surplus money, forgoing an important opportunity to strengthen child welfare services. Changes in federal and State law with the passage of the federal Adoption and Safe Families Act (ASFA) are placing new requirements on New York State to expedite permanency for children in foster care by shortening their length of stay in out-of-home placement. This requires intensive casework and a range of support services available to reunite

children with their families or to facilitate an adoption. The successful implementation of ASFA is dependent on more, not less State funding than is now available in the Block Grant. At the local level, the Administration for Children's Services (ACS) is redesigning New York City's child welfare services by creating a neighborhood-based system of service delivery, which should create stronger community supports for families and facilitate reunification for families with children in the foster care system. New York City accounts for the majority of children and families served by the State's child welfare system. Again, these changes will require additional funding to expand child welfare services in communities.

More children entering the foster care system, the new federal requirements under ASFA, and the shift to neighborhood-based services all add pressure for additional funding, that should be shared by all levels of government. At the State level, the Governor and Legislature have relied on the Block Grant as a new method of payment for the child welfare system that promised to create efficiencies and improve the provision of services for children and families. Instead of promised improvements, the Block Grant increased tension between the counties, child welfare providers, foster parents and New York State.³ The original sunset date for the Block Grant was March 31, 1999, however it has been extended for another two years, until March 31, 2001. In the interim, the Office of Children and Family Services (OCFS) is required to submit a report to the Legislature by July 2000 that proposes a new funding structure for child welfare services.

Recognizing the opportunity to shape the State's strategy for funding child welfare services, Citizens' Committee for Children of New York (CCC) convened a Task Force comprised of preventive

¹ 128,177 reports in 1995 versus 145,478 reports in 1998. *Monitoring and Analysis Profiles With Selected Trend Data*, New York State Office of Children and Family Services 1998.

² 15,849 children admitted to foster care in 1995 versus 19,206 children admitted to foster care in 1998. *Monitoring and Analysis Profiles With Selected Trend Data*, New York State Office of Children and Family Services 1998.

³ For a full treatment of these issues refer to *Carrots and Sticks: The Impact of the New York State Family and Children's Services Block Grant on Child Welfare Services in New York City*, Citizens' Committee for Children of New York, Inc., February 1998.

service and foster care providers, child welfare fiscal experts and advocates to examine the strengths and weaknesses of this Block Grant and to review innovations in child welfare financing in other states. We also consulted managed care and federal fiscal experts to develop a funding proposal that would be politically savvy as well as achieve long overdue changes in the child welfare system. We prepared this policy brief for the Governor's office, the Legislature and the New York State Office of Children and Family Services (OCFS) as the first step to assist in developing a new method of financing child welfare services.

Background

In 1995, Governor Pataki and the New York State Legislature created the Family and Children's Services Block Grant (Block Grant), which consolidates funding streams for various child welfare services and caps the amount of State funding available for these services. The Block Grant conditioned funds for child welfare services as a fixed annual State budget appropriation and no longer as an uncapped entitlement for all abused and neglected children needing protection and care.⁴ New York State is the only state in the nation that is funding child welfare services through a block grant, and not as an entitlement program. In its first year, the Block Grant decreased State spending by 25% or \$151 million. Since then, the State has restored approximately two-thirds of the cuts, while the number of reports of abuse and neglect statewide have increased by 13.5%⁵ and the number of children being admitted to foster care has increased by 21.2%.⁶

FUNDING FOR THE NEW YORK STATE FAMILY AND CHILDREN'S SERVICES BLOCK GRANT⁷

Fiscal Year	Block Grant (in millions)
1995	\$579 ⁸
1996	\$428
1997	\$507
1998	\$507
1999	\$521 ⁹
2000	\$536

With the enactment of the Block Grant, the Governor and the Legislature devolved financial decision-making and fiscal responsibility for child welfare services to the counties. The Block Grant also shifted financial risk to the counties, providers and foster parents, requiring them to bear the costs of providing services to increasing numbers of abused and neglected children and their families with substantially fewer State dollars. Even though the State has combined funding for preventive and foster care services in a single funding stream under the Block Grant, these services remain categorical. The counties still allocate these funds to the child welfare providers in distinct contracts, paying for preventive services at one agency and foster care services at another agency. Furthermore, in New York City, families who are receiving foster care services cannot enroll in a preventive service program without being granted an exception to policy. As a result, the rate formula and payment structure remained the same and foster care providers have been unable to spend their budgets on services other than foster care.

⁴ *Carrots and Sticks: The Impact of the New York State Family and Children's Services Block Grant on Child Welfare Services in New York City*, Citizens' Committee for Children of New York, Inc., February 1998.

⁵ 128,177 reports in 1995 versus 145,478 reports in 1998. *Monitoring and Analysis Profiles With Selected Trend Data*, New York State Office of Children and Family Services 1998.

⁶ 15,849 children admitted to foster care in 1995 versus 19,206 children admitted to foster care in 1998. *Monitoring and Analysis Profiles With Selected Trend Data*, New York State Office of Children and Family Services 1998.

⁷ New York State Executive Budget, FY95-FY2000.

⁸ This figure represents statewide funding for protective, preventive and foster care services for FY1995.

⁹ In FY99 the State added the cost of foster care services for juvenile delinquents and Persons-In-Need of Supervision (PINS) to the Block Grant (\$49 million) and removed child protective services (\$50 million).

Essential to a block grant structure is the flexibility to increase or decrease spending based on the demand for services. New York State, however, reviews its historical spending on child welfare services to determine the Block Grant budget, which neither reflects the number of children and families using foster care and preventive services, nor reflects the number of reports of abuse and neglect, nor the number of children moving towards adoption. The State does not use these indicators as the basis for setting its annual child welfare budget nor has it identified performance measures to be achieved. By itself, the Block Grant has devolved decision-making to the counties, without also identifying what outcomes the counties should meet.

In addition to reduced child welfare dollars in the Block Grant, New York State has also moved away from spending its own dollars to serve abused and neglected children and their families. With opportunities to use federal funding to pay for child welfare services, the State has replaced its own dollars spent on child welfare services with federal Temporary Assistance for Needy Families (TANF) funding. Since FY'97, the State has used \$78-\$244 million annually in federal TANF surplus funds to pay for child welfare services.¹⁰ At the same time, State support in the Block Grant has decreased by \$70-\$100.8 million annually since FY'97 by using TANF funds to supplant State dollars.¹¹ This strategy has several weaknesses. First, the TANF funds are intended to support initiatives that give families the supports to move from welfare-to-work and not to fund child welfare services.

Second, by using federal dollars to pay for the State's share of providing child welfare services, the State is actually limiting its ability to maximize federal funding. For example, in order to draw down all federal IV-B¹² dollars, the State must meet a \$380 million maintenance of effort requirement

for spending on preventive services. By using federal TANF dollars to pay for New York State's preventive service programs, the State is unable to meet its MOE because federal dollars cannot be used towards the federal MOE requirement. The use of this strategy has meant that New York State has opted out of the Promoting Safe and Stable Families Program¹³ and has given back approximately \$16 million to the U.S. Treasury each year since 1997. Similarly, by using TANF dollars in the Block Grant, the State is unable to draw down all available federal IV-E funds that pay for the room and board and administrative costs of children and youth in foster care. If a county uses the TANF dollars in the Block Grant to pay for foster care services, then the county loses the federal IV-E matching portion because federal TANF funds cannot draw down other federal dollars.

Third, using TANF dollars to support the State's child welfare system is not a sustainable strategy over the long term because of uncertainty over the continued flow of these dollars. The federal government will recalculate state TANF dollars in 2001, which could result in fewer TANF funds allocated to New York State. Furthermore, in the event that there is any downturn in the economy and New York State's welfare caseload begins to increase, the State would require more TANF dollars to support the additional families applying for welfare and related services. If TANF funds decrease in the future based on these or other reasons, it is questionable whether New York will make up the difference in funding for child welfare services, which would translate into less available services to vulnerable children and families. At this point, State dollars will need to be redirected from other spending areas or the provision of services to vulnerable children and their families will be in jeopardy.

Less State funding under the Block Grant has put significant pressure on the counties to maintain

¹⁰ *New York State Executive Budget, FY'97-FY2000.*

¹¹ *Ibid.*

¹² Title IV-B of the Social Security Act provides funding for family support and family preservation, and family rehabilitation services, which includes services to prevent foster care placements, help reunite children with their families, provide parenting skills and provide follow-up services after reunification.

¹³ This program is formerly known as the Family Support and Family Preservation Program. In 1997, the program was reauthorized under the Adoption and Safe Families Act, and was renamed.

spending on foster care and preventive services. New York State has recognized some of the fiscal shortcomings of the Block Grant and has made piece-meal attempts to address the funding inadequacies. For example, the State permitted counties to decrease spending on preventive services by lessening the fiscal sanctions for counties that failed to make the 80% maintenance of effort requirement for preventive services. This gave counties permission to decrease their spending by more than 20% without enduring significant penalties. When faced with a shortage of congregate care beds due to inadequate funding for staff, the State increased reimbursement to congregate care providers by allocating additional funds to the counties outside of the Block Grant. Finally, when faced with increasing numbers of families being investigated for suspected abuse and neglect and less dollars available in the Block Grant, the State removed child protective services from the Block Grant.

The requirements in the federal Adoption and Safe Families Act (ASFA) places additional pressure on the State's child welfare system to reduce the use of foster care. In 1997, the President and Congress passed ASFA to reduce long lengths of stay in foster care and expedite permanency for children. Among other provisions, ASFA requires states to file termination of parental rights petitions after a child has been in foster care for 15 of the last 22 months.¹⁴ Of the children who were discharged from foster care in 1997, almost half (48%) of the children had been in foster care for over two years,¹⁵ exceeding the timeframe required by ASFA. New York State passed its own ASFA enabling legislation in February 1999 that makes changes to State law to comply with the federal ASFA requirements.

Shortening the length of stay for children in foster care while also safely returning children home or placing children with adoptive families

requires capable and experienced casework staff that can provide intensive services to help families become reunited with their children. Less funding in the Block Grant, however, has translated into less funding for foster care providers, causing agencies to lay off staff, and to significantly increase caseloads.¹⁶ Over the past four years, foster care agencies have also experienced significant staff turnover, and these positions have remained unfilled for extended periods of time due to low salaries and poor benefits. The accelerated timeframe for finding permanent homes for children in foster care coupled with inadequate State funding for direct care staff at foster care agencies may severely jeopardize the State's ability to meet the mandates in ASFA. As the federal government begins to implement ASFA performance measures for states, New York could risk losing federal child welfare funds if unable to meet the specified targets.

Innovation in Child Welfare Financing: New York State and National Experiences

HomeRebuilders

New York State was an early pioneer in the development of care management models for child welfare services when it conceived the HomeRebuilders model in the early 1990's. Under this model, the State used a capitated rate to set the total amount of funding for three years at the outset, and agencies chose the proportion to be spent in each year. Agencies were given the opportunity to spend more on their foster care services during the first year when the child and family's needs may have been more demanding and would provide less intensive services during year two and year three, which cost the agency less money. These six foster care agencies still

¹⁴ There are three notable exceptions when states do not have to file termination petitions after a child has been in foster care for 15 of the last 22 months. They are (1) if the family did not receive the necessary services to regain custody of their children; (2) if the child is living with a kinship foster parent (which is a state option that New York State adopted); and (3) if it is not in the best interests of the child, which is defined by federal and state law.

¹⁵ *Monitoring and Analysis Profiles With Selected Trend Data*, New York State Office of Children and Family Services 1998.

¹⁶ *Carrots and Sticks: The Impact of the New York State Family and Children's Services Block Grant on Child Welfare Services in New York City*, Citizens' Committee for Children of New York, Inc., February 1998.

received their reimbursement on a monthly basis.

The State allocated money to each agency based on the agency's average per diem rate per child combined with the average length of stay for children at each agency and the population in the pilot program. In addition, these agencies were allowed to spend their foster care budget on any services they deemed necessary, as this money was not restricted for use on foster care services. Six foster care agencies were selected in 1993 to administer three-year pilot projects to achieve permanence more quickly for children in foster care while also preserving child safety. Some of the agencies chose to use the HomeRebuilders model for children who were first entering foster care, while others selected children who had already been in care for some period of time. One agency used its entire foster care population in the pilot project.

Although it was a well conceived project, the HomeRebuilders initiative encountered many problems, including significant reimbursement delays that jeopardized its success. These delays severely limited the foster care agencies' ability to improve program planning and offer more individualized and intensive services to children and families. To give an example, one agency recently received approximately one-third of its HomeRebuilders budget four years after the project was terminated. The HomeRebuilders pilot programs did not complete their third year of operation. An evaluation of the HomeRebuilders program found that it was difficult to draw conclusions about the efficacy of the projects mainly because the populations being served differed from each other.¹⁷ That some agencies used children just entering foster care, while others used children who had been in care for a significant period of time, prevented comparison between the six pilot programs. However, the report concluded that fiscal

incentives alone cannot effectuate major reform in the child welfare system.¹⁸

Other Care Management Financing Models

Since the HomeRebuilders experiment in New York, other states have begun to test the waters of child welfare financing and have implemented innovative methods of payment and performance measures to reduce lengths of stay in foster care while keeping children safe and finding them a permanent home. The trend nationally is to experiment with other forms of paying for services for abused and neglected children and their families. Many states have received federal IV-E¹⁹ waivers and are experimenting with the use of IV-E dollars for services other than foster care room and board payments as part of their pilots. The states and the federal government are interested in trying innovative methods to reduce the use of foster care.

Thirteen states that have implemented managed care projects and another 20 states are considering developing similar projects.²⁰ Some of these efforts have been reported on in the General Accounting Office report, *Child Welfare: Early Experiences Implementing a Managed Care Approach*.²¹ These financing models reported by the GAO seek to contain costs while also ensuring quality of care and agency performance. The goal of these initiatives is to maximize the use of state and local child welfare dollars on services other than foster care to decrease the numbers of children requiring out-of-home placement, to reduce the length of stay for children in foster care and to provide in-home support services to children and families.

The Child Welfare League of America (CWLA) has also reported on states and counties that have created child welfare financing projects that focus

¹⁷ *Evaluation of the New York City Homerebuilders Demonstration*, Office of the Assistant Secretary for Planning and Education, Department of Health and Human Services, 1999.

¹⁸ Ibid.

¹⁹ Title IV-E of the Social Security Act provides funding for the room and board, services and administrative costs of children in foster care. This remains the only source of uncapped federal child welfare dollars.

²⁰ *Child Welfare: Early Experiences Implementing a Managed Care Approach*, United States General Accounting Office, October 1998.

²¹ Ibid.

on principles from managed care and privatization, entitled *CWLA Managed Care & Privatization Child Welfare Tracking Project*.²² In addition to profiling each state and county initiative currently underway or soon to be implemented, CWLA reports that approximately half of the initiatives will have an independent evaluation conducted to test their efficiency and effectiveness in improving outcomes for children and families. These evaluations will generate significant information on the number of children being served, the types of services being offered and the costs of these services while also collecting data on characteristics of the population being served, service utilization patterns, and costs associated with achieving particular outcomes.²³ Crucial to developing and maintaining a care management system is the availability of comprehensive data about the population to be served that can account for costs. CCC wants to take lessons learned in other states and adapt them to a New York State care management system for children who have been abused or neglected and their families.

Federal IV-E foster care dollars, the only remaining federal entitlement for child welfare services, are not flexible and cannot be spent on services other than out-of-home placement, which provides a disincentive to increase in-home services, such as preventive services to families with children at risk of entering foster care. The federal government is examining the advantages of using IV-E funds on other child welfare services to reduce foster care placement by granting waivers to states to conduct demonstration projects. 20 states have been granted federal IV-E waivers and are using the increased spending flexibility to implement new child welfare financing models, including some of those reported in the GAO report and in the CWLA Managed Care Institute report. New York State submitted a managed care proposal intended to reduce the use of foster care to the federal government, and was granted a federal IV-E waiver in July 1997. The State

has not implemented any pilots however, and risks forgoing the use of its waiver.

Of the 27 managed care approaches being implemented throughout the United States, there are four types of models that are being employed. It is important to note that none of the 27 managed care initiatives has gone to scale statewide except for Kansas. Moreover, each model created specific parameters by choosing a cohort of children and/or youth to be included in the managed care initiative based on geographic location or service needs.²⁴ The four types of models include:

1. **PUBLIC MODEL:** the public agency maintains the current services delivery structure, but implements new payment methods and performance standards.
2. **LEAD AGENCY MODEL:** the public agency contracts with a private organization that becomes responsible for coordinating and providing all necessary child welfare services. The Lead Agency can provide all of the necessary services directly or can subcontract with local service providers to form a service provider network.
3. **ADMINISTRATIVE SERVICES ORGANIZATION MODEL:** the public agency contracts with a private management services organization to provide billing, reimbursement, development and operation of a data system, training and technical assistance. The public agency also contracts with a private organization to provide services.
4. **MANAGED CARE ORGANIZATION MODEL:** the public agency contracts with a private organization that contracts with other local providers for the provision of services. This model is similar to the lead agency model, except that the private organization that contracts with the public agency does not provide any services.

²² *CWLA Managed Care & Privatization Child Welfare Tracking Project, 1998 State and County Survey Results*, CWLA Managed Care Institute, Charlotte McCullough and Barbara Schmitt, 1999.

²³ *Ibid.*

²⁴ *Refinancing New York's Child Welfare System*, Burch-Smalls, F., Fine-Jewell, P. and Solomon S., The Capstone Project, New York University Robert F. Wagner School of Public Policy, 1999.

Each model requires a single point of entry into the service system and case management, treatment planning and case monitoring is retained by the entity that serves as the point of entry. In each of the models examined by the GAO report, the public agency maintains the role of investigating reports of abuse and neglect. To create a continuum of care for their clients, some states have pooled various funding streams for child and family services, such as child welfare, mental health, youth services and juvenile justice funding. These models allow the provider to use their reimbursement up front and plan to deliver an array of services for the clients served.

Each managed care initiative has required the development and use of performance standards to keep providers accountable for outcomes, including process measures (i.e. tracking the average length of stay in foster care and the number of children discharged to their families) as well as quality of life measures for children and families being served (i.e. how many youth with a goal of independent living finished high school). For example, providers can receive financial bonuses for meeting performance standards and providers must reinvest unspent dollars on other child welfare services. Many initiatives encourage spending on services other than foster care to reduce the length of stay for children in care, including family preservation services.

Four major themes run throughout the managed care initiatives currently being implemented across the country: (1) public agencies are creating mechanisms to limit the financial risk to providers, (2) public agencies are transferring case management from the public agency to a private organization, (3) public agencies are retaining discretion over which populations will be served under the managed care initiative, and (4) public agencies are using quality assurance mechanisms to ensure provider accountability.

Of the 49 initiatives reported on by CWLA, almost half are using a case rate as the method of payment for child welfare services.²⁵ The case rate is a fixed payment paid in advance per child referred to the child welfare system, and includes payment for all contracted services regardless of whether the child uses all included services and is set on a per child basis. It is set by bundling rates and paying a single average rate on a fixed-fee basis that is based on the level of service, duration and cost. The case rate can be set by a competitive bidding process, based on historical data or negotiated between the provider and the public agency. Only three of initiatives reported on by CWLA are using a capitated rate to pay providers, which is a fixed payment paid in advance for services given to a defined population of children and families with no specified duration of care and is set based on a population of children.²⁶

Although most of the managed care initiatives have been in place for two years or less, some have already produced positive results that include achieving cost savings while also ensuring quality of care, and more coordinated and integrated service delivery systems. Some of these initiatives have also experienced major problems because of flaws in the financing design. For example, the public agency must be careful to set the case rate at an appropriate level to ensure the provision of quality services. Child welfare providers in Kansas are currently experiencing significant budget shortfalls because the case rates set by the State Department of Social and Rehabilitation Services (SRS) are too discounted for providers to adequately care for children and families and have cost providers millions of dollars.²⁷ Massachusetts' Commonworks program has had far better success at accurately setting the case rate because the State evaluated the actual cost paid during the first year of the initiative under a no-risk contract (the State would assume the risk if providers exceeded their

²⁵ *CWLA Managed Care & Privatization Child Welfare Tracking Project, 1998 State and County Survey Results*, CWLA Managed Care Institute, Charlotte McCullough and Barbara Schmitt, 1999.

²⁶ *Ibid.*

²⁷ *Funding Problems Plague Kansas Prioritization Efforts*, Children's Services Report, Manisses Communication Group, April 12, 1999, page 1.

budgets) that accounted for inflation and looked at projections of lengths of stay. The State then negotiated the contract with providers to arrive at a case rate of \$4,447 per month, per child to cover all necessary services until the case is closed. The providers receive this funding up front and are also eligible for performance bonuses.²⁸

Based on the early results of all of these managed care initiatives and the research conducted by the General Accounting Office, Child Welfare League of America and the Chapin Hall Center for Children at the University of Chicago,

New York State could employ many reform tools to more appropriately contain costs while also ensuring quality of care. The New York State Family and Children's Services Block Grant has proved effective at containing, and substantially reducing, State child welfare costs. However, this result is misleading because the actual cost of care has been shifted to and borne by the counties, child welfare agencies and foster parents, while reducing the availability of preventive services and seriously eroding the quality and consistency of all services provided through excessive staff turnover.

²⁸ *Commonworks After 18 Months – Massachusetts: A Look at One of the First Child Welfare Managed Care Experiments*, The Children's Vanguard, Volume 2, Issue 10, December 1998.

A New Proposal for Financing Child Welfare Services

In Citizens' Committee for Children's (CCC) previous report, *Carrots and Sticks: The Impact of the Family and Children's Services Block Grant on Child Welfare Services in New York City*, we advocated for the elimination of the Block Grant because of its inability to provide adequate funding or a method of payment that would reduce long stays in foster care and increase the use of preventive and aftercare services. We also recommended that the State create a funding formula that provides adequate base dollars that could account for changes in population, and redesign the Maximum State Aid Rate (MSAR)²⁹ formula to reflect current conditions and not historical costs. Finally, we urged the State to develop an evaluation process to promote accountability and to measure the impact of spending plans on quality, access and availability of child welfare services. CCC still recommends these

changes because the Block Grant has not provided adequate funding for child welfare services nor has it paid foster care agencies to provide a continuum of services to abused and neglected children and their families. We also believe that the State should consider a financing proposal that improves the rate setting methodology and provides for adequate funding up-front for foster care providers to offer a range of services, including preventive and aftercare services, to reduce the use of out-of-home placement for children. Initially, we would like to target our proposal to foster boarding home programs, which represents 82% of the statewide foster care population.³⁰

CCC's proposal has several components, some of which can be implemented in the short-term and others which require long range planning. These components can be implemented in phases or developed simultaneously:

- **NEW YORK STATE SHOULD FUND THE MSAR PER DIEMS FOR ALL FOSTER CARE SERVICES, INCLUDING FOSTER BOARDING HOME AND CONGREGATE CARE PROGRAMS, USING THE DIRECT CARE PARAMETERS SET BY THE STATE IN ITS MODEL BUDGET TO BE IMPLEMENTED IN FY2001.**
- **NEW YORK STATE SHOULD ESTABLISH AND MONITOR PERFORMANCE OUTCOMES TO ENSURE QUALITY OF CARE AND SERVICES TO BE IMPLEMENTED IN FY2001.**
- **NEW YORK STATE SHOULD DEVELOP A CASE RATE PAYMENT SYSTEM FOR FOSTER CARE SERVICES:**

STEP ONE: New York State should develop a case rate payment system for foster boarding home programs, with a timetable for implementation.

STEP TWO: New York State should consider developing a case rate payment system for congregate care programs, with a timetable for implementation.

²⁹ The MSAR is generally based on each agency's costs for each child in each placement type in the two years prior. The State determines this maximum daily rate for the cost of room and board, services and administrative costs for services for children and youth in foster boarding homes and congregate care.

³⁰ As of 12/31/98, there were 41,846 children in foster boarding homes, which represents 81.8% of the foster care population statewide. *Monitoring and Analysis Profiles With Selected Data Trends*, New York State Office of Children and Family Services, 1998.

Change the Methodology for Calculating the Per Diem Rate for Foster Care Providers

• USE THE NEW YORK STATE MODEL BUDGET

FUND THE MSAR PER DIEMS FOR ALL FOSTER CARE SERVICES, INCLUDING FOSTER BOARDING HOME AND CONGREGATE CARE PROGRAMS, USING THE DIRECT CARE PARAMETERS SET BY THE STATE IN ITS MODEL BUDGET. New York State's continued use of an inflexible and inadequate fee-for-service rate structure used to pay providers for foster care services delivered compounds the limitations of the Family and Children's Services Block Grant. For foster care, the Maximum State Aid Rate (MSAR) discounts the cost of providing foster care well beyond what is reasonable by relying on a two-year-old retrospective assessment of operating costs, with inflation, as the basis for calculating the rate. The rate represents the lower of an agency's costs two years prior or the State set spending parameter (ceiling). The State Office of Children and Family Services (OCFS) has computed parameters (ceilings) for administrative, property and direct care costs based on a model budget it developed in the early 1980's. It specifies appropriate staffing levels for each foster care program and designates salaries. If a foster care agency's direct care costs come in under the parameter, then the agency is receiving less reimbursement than the State deems adequate in its model budget. The staffing ratios specified in the model budget are set depending on the kind of foster care program being offered — i.e. regular needs foster boarding home, therapeutic foster boarding home, group homes, residential treatment centers. Each program is rated on a scale of 1-12, with 1 representing programs for children with the most severe emotional and mental health needs and requiring the highest staffing levels. Each year the salaries listed in the model budget are adjusted to reflect cost of living adjustments.

Where the Block Grant promised adequate funding, the reality of retrospectively derived rates based on available funding rather than actual costs makes this goal impossible to achieve. Furthermore, even after the MSAR is calculated the State often reduces the total amount of child welfare funds available for reimbursement, as it did with the Block Grant. With less State funding in 1996, some counties could not reimburse at 100% of an agency's MSAR and reduced agency reimbursement, even further discounting the cost of services to children and families. For example, in New York City, which accounts for the majority of the State's foster care population, ACS reduced agency reimbursement to 85% of each agency's MSAR, as well as reduced the foster boarding home rates paid to foster parents. New York City only began to pay agencies 100% of the MSAR in July 1998 and the full board rate to foster parents in July 1999. The interaction between state/local match formulas, rate-setting parameters and fee-for-service reimbursement mechanisms in an underfunded Block Grant creates competition among service components in the child welfare system and undermines the best efforts to meet the needs of abused and neglected children and their families because providers are unable to afford quality services for their clients.

Another difficulty with the MSAR is that the calculation is based on the child being placed in foster care and does not take into account the size of the child's family and the staff required to adequately serve the entire family and not just the child placed in care. As proposed in the managed care paper, *Implementation of Managed Care in Child Welfare: Issues to Consider*,³¹ the family unit should be considered when establishing the reimbursement rates for child welfare providers, and not just the child in care. This is of particular importance when some of the children remain in the home and one child is placed in foster care.

We recommend that the State consider funding the per diems for all foster care services at 100% of the direct care parameters it set according to

³¹ *Implementation of Managed Care in Child Welfare: Issues to Consider; A Report of the New York City Task Force on Managed Care in Child Welfare*, Marta Siberio, June 28, 1996.

the model budget. To determine the amount needed to make up the difference, the State can look at each agency's direct care budget submission and calculate the difference between the agency's direct care cost and the standard parameter. This information is already collected annually from foster care agencies and is easily accessible for such a calculation.

Create a Care Management System for Children Living in Foster Boarding Homes that:

- **ESTABLISHES AND MONITORS PERFORMANCE OUTCOMES TO ENSURE QUALITY OF CARE AND SERVICES,**
- **REIMBURSES CARE PROVIDED BY USING A CASE RATE, AND**
- **CREATES A DISINCENTIVE FOR OVERUSE OF FOSTER CARE AND BALANCES THE FINANCIAL RISK BETWEEN THE STATE AND LOCALITIES.**

ESTABLISH AND MONITOR PERFORMANCE OUTCOMES TO MAINTAIN PROGRAM QUALITY AND TO PREVENT CHILDREN FROM BEING DISCHARGED PREMATURELY FROM FOSTER CARE.

The Family and Children's Services Block Grant represents financial reform and not programmatic reform, without any set of desired outcomes for children and families served. Without establishing its goals, the State cannot measure the successes and failures of the child welfare system related to the amount of taxpayer money invested and whether children are safer and families are more stable. By creating performance measures, the State will be taking the necessary steps to outline its vision for protecting children and supporting healthy and stable families. Like other reform initiatives around the country, we also recommend the use of performance measures at the county level and performance-based contracts for providers in order to monitor the quality of care

and agency performance. New York State should create the indicators to be measured and the targets to be met, which should be consistent statewide, promulgated as new regulations with a public comment period. As resources for the development of outcomes and performance measures, we recommend that the State use the *Guidelines For Public Policy and State Legislation Governing Permanence For Children*³² and also review the outcomes developed under the Adoption and Safe Families Act (ASFA), both being published by the U.S. Department of Health and Human Services (DHHS).

The use of intermediate fiscal sanctions if agencies fail to meet performance measures creates more problems than it solves because less money to providers guarantees even worse care provided to children and families. Agencies that fail to take corrective action or fail to improve their performance should lose their contract. The legislation that created the Block Grant did not create any fiscal sanctions for providers that failed to meet performance targets or that failed to maintain spending on certain services. The only fiscal sanctions that exist are for failure to complete appropriate paperwork on individual cases, known as 153d sanctions.³³ The State has maintained a moratorium against collecting these fines from the counties until March 31, 2001.

Fiscal sanctions for providers have been implemented in some managed care initiatives, however there is disagreement in the field whether they are a useful tool for reform. Alternatively, we recommend that providers that cannot achieve certain performance goals be required to submit a corrective action plan and timeline to the county with which it contracts. The provider will be reviewed and assessed for any improvements. If the provider is unable to demonstrate that it can meet the performance measures, then the contract will be terminated.

³² *Adoption 2002: The President's Initiative on Adoption and Foster Care, Guidelines For Public Policy and State Legislation Governing Permanence For Children*, U.S. Department of Health and Human Services, Administration for Children and Families, Children's Bureau, June 1999.

³³ Social Services Law §153d.

New York State has a history of imposing fiscal sanctions on counties for failing to maintain certain targets in spending, but not for failing to achieve certain performance outcomes. For example, the Block Grant legislation created fiscal sanctions for counties that failed to make the maintenance of effort requirement for spending on preventive services. The counties, however, did not seem threatened by the imposition of these sanctions and in 1995 11 counties did not meet the 80% MOE requirement and were sanctioned.³⁴ The State then revised the penalties under the MOE and reduced the financial burden to smaller counties that failed to maintain spending on preventive services. As a result, more than 30 counties failed to make the maintenance of effort requirement the following year.³⁵ Failure to sanction the counties for poor performance is irresponsible and severely undermines the

providers ability to maintain quality services for children and families. The preventive services MOE and the revised schedule of fiscal penalties has been extended until March 31, 2001.

CONVERT THE MSAR PER DIEM INTO A CASE RATE PAYMENT SYSTEM FOR FOSTER BOARDING HOME PROGRAMS TO CONTROL COSTS AND IMPROVE SERVICES. We propose that the case rate be calculated on an agency by agency basis for each type of foster boarding home – regular, special, exceptional – and measured against statewide and regional average costs of care. The case rate for each level of foster boarding home care will be determined by calculating the average per diem rate using the direct care parameters set out in the State’s model budget combined with the average length of stay for children, the number of children to be served, and family size. Funding for

MASSACHUSETTS’ COMMONWORKS developed a case rate of \$4,447 per month, per child to cover all of the necessary services until the case is closed. To derive the case rate, the State evaluated the actual cost paid during the first year of the initiative under a no-risk contract (the State would assume the risk if providers exceeded their budgets) that accounted for inflation and looked at projections of lengths of stay. The State then negotiated the contract with providers to arrive at a case rate of \$4,447 per month, per child. The providers receive this funding up front and are also eligible for performance bonuses. This program is for adolescents ages 12-17, and their families, and services include case management, family support, foster boarding homes, residential care/treatment, substance abuse services and independent living services. The State is solely responsible for funding this initiative.³⁶

THE KANSAS STATE DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES contracts with (1) five agencies to provide family preservation services statewide, with the first year per-family case rates ranging from \$3,274-\$3,750; (2) five agencies to provide foster care services statewide, with the first year per-child case rates ranging from \$12,860-\$15,504; and (3) one agency to provide adoption services statewide, with the first year per-child case rate of \$13,556. Kansas pooled all of the State’s child welfare dollars and allocated them on a per-child basis, which does not represent an annual rate but rather a per-child rate to cover the total cost of services for the duration in care.

³⁴ 1998 Budget Briefing Paper, Council of Family and Child Caring Agencies, 1998.

³⁵ Ibid.

³⁶ *Commonworks After 18 Months – Massachusetts: A Look at One of the First Child Welfare Managed Care Experiments*, The Children’s Vanguard, Volume 2, Issue 10, December 1998.

services other than foster care would come from State and local spending, and the State would continue to use IV-E dollars for the foster care costs included in the case rate. In order to use IV-E dollars for all services calculated in the case rate, New York would need to take advantage of its IV-E waiver that allows the State to use its IV-E foster care dollars on a broader range of child welfare services. Without the IV-E waiver, providers would be reimbursed for foster care services only.

As in HomeRebuilders, the foster care agency would be permitted to spend this money on any and all costs it deems necessary to expedite the safe return home for children in foster care or achieve an adoption for those children who cannot return home. For example, foster care providers could invest in aftercare services for families who have been reunified with their children, additional home-based preventive services while children are in foster care, housing improvements for families, security deposit for an apartment or even job training for a parent – all services intended to expedite family reunification for children in foster care.

Foster care agencies would still receive their

reimbursement on a monthly basis, however the agencies would choose the proportion of the case rate to be spent annually. Therefore, they could provide more intensive services up front during the first year of foster care placement when the family's service needs may be most demanding, and decrease the level of service intensity in the second year. Foster care agencies will therefore be able to plan their staffing capacity better and make investments in aftercare services for children after they leave care. Without giving providers the flexibility to spend their funding on a continuum of support services and incentives to broaden their method of service delivery, children and families will continue to receive piece-meal support from foster care agencies. Creating a case rate method of reimbursement would give foster care providers this flexibility.

CREATE A 10% STOP-LOSS CORRIDOR TO SET LIMITS ON FINANCIAL RISK.

Using a case rate system means that foster care providers are allocated a fixed sum of money for services provided to a child in foster care, regardless of the

CALCULATING THE CASE RATE

- Historical data about service utilization, the impact that particular treatment methodologies has on reducing the length of stay of children in foster care, and what factors derive the length of stay are critical to accurately setting the case rate. New York State can generate basic utilization data that specifies the average length of stay and the cost of care while in foster care. However, the State may not have the breadth of data necessary to identify demographic issues, case assessment issues and treatment methodologies that can identify what services foster care agencies can provide to impact on the length of stay. One way to remedy this drawback is to replicate the rate setting methodology used in Massachusetts. In its Commonworks program, the State evaluated the actual cost paid during the first year of the initiative under a no-risk contract that accounted for inflation and looked at projections of lengths of stay.
- In developing a case rate methodology, each agency could have one case rate for its foster boarding home care, regardless of the child's classification (i.e. regular, special or exceptional), or alternatively, each agency could be assigned three separate case rates for regular, special and exceptional needs children. Creating one case rate per agency will simplify the claiming process and the State's ability to determine whether an agency has saved or lost money under the case rate system.
- As written, CCC's proposal recommends the use of child welfare funds for this initiative. However, the proposal could also be funded by a creative combination of funding streams, such as mental health, youth services and/or juvenile justice funds, where appropriate to maximize available funding.

child's duration in care. A stop-loss provision will limit the financial risk to foster care providers if the case rate was initially miscalculated. Many managed care initiatives across the country have implemented stop-loss insurance to account for initial miscalculations or changes in the cost of services that can occur during the start-up phase of their projects. Failure to accurately calculate the case rate will severely jeopardize the success of any care management initiative. In its survey results, CWLA reports that in most initiatives, the stop-loss provision protected providers against severe financial loss, although there were a few exceptions where the case rate was set too low and the stop-loss provision did not provide enough insurance for providers.³⁷ In those cases providers suffered significant financial losses.

If an agency is able to reduce the length of stay for its foster boarding home population, then we propose that the providers be allowed to reinvest these dollars in other family support and foster care services within the agency. The providers are limited, however, to keeping only 10% of any funds saved. Any funds saved that exceed 10% of the case rate will be returned to the State. Similarly, if the lengths of stay increase under the case rate methodology, we propose that the State provide an additional 10% reimbursement over the case rate

amount to the foster care agency to pay for the child's room and board and costs associated with expediting the child's discharge from care.

Any reimbursement system must balance the risk and cost associated with providing services between the payor, the State in this case, and providers, in order to achieve performance targets and contain costs. Under the Family and Children's Services Block Grant, the State has reduced spending, capped its financial liability and shifted risk to the counties, providers and foster parents. This has resulted in counties overspending their Block Grant allocation and a significant decrease in the availability of preventive and foster care services for children and families.³⁸ Child welfare providers could assume more risk if they were assured of adequate funding to cover the cost of services for children and families, and were able to front-load the services offered during the first year of placement, as in our proposal. While foster care providers would be assuming more risk by receiving a case rate instead of a per diem payment, we recommend limiting their risk somewhat by implementing a 10% stop-loss corridor. Similarly, the State could profit too by sharing in any savings realized by the foster care agencies in excess of 10% of each child's case rate.

³⁷ CWLA *Managed Care & Privatization Child Welfare Tracking Project, 1998 State and County Survey Results*, CWLA Managed Care Institute, Charlotte McCullough and Barbara Schmitt, 1999.

³⁸ *Carrots and Sticks: The Impact of the New York State Family and Children's Services Block Grant on Child Welfare Services in New York City*, Citizens' Committee for Children of New York, Inc., February 1998. See also *Family Support Services: Keeping Children Safe and Promoting Positive Family Life*. Citizens' Committee for Children of New York, Inc., August 1998.

Conclusion

The Family and Children's Services Block Grant and the per diem rate methodology have not relieved New York State from mounting pressures on its child welfare system. What is necessary is not just an increase in funding, but also a more efficient way to allocate child welfare dollars to counties and the providers to produce better outcomes for children and families. The State's model budget provides a good starting point for re-examining the costs associated with providing quality foster care services. New York State should also consider using some of the financing tools currently being implemented across the country to reduce the use of foster care while also providing for the safety of children, as required under ASFA. These managed care approaches demand program reform in addition to changing the allocation of funding for services. The recommendations outlined in this paper represent the initial steps that must be taken toward true service reform. They will give child welfare providers the flexibility to provide a range of services to children and families, including both in-home and out-of-home services, that will significantly reduce foster care placement rates.

The New York City Administration for Children's Services' (ACS) new Scope of Services as outlined in its Requests For Proposals (RFP), establishes an important step towards developing better coordinated and consolidated networks of service. Through the contracting mechanism, ACS fixes responsibility in the child welfare providers and locates services in the neighborhood. Requiring foster care agencies to serve specific community districts, provide community-based foster care services and to demonstrate linkages to community-based providers in the neighborhoods that they intend to serve will strengthen the provision of services and facilitate a continuum of care for children and families. New York City's new plan will offer children the opportunity to maintain closer relationships with their families while they are in foster care. However, without a reimbursement methodology that pays foster care agencies for the services provided, provides spending flexibility on the range of services to be provided, and keeps children safe while running quality programs, New York City will not be able to achieve the full potential of its well intentioned program plan.

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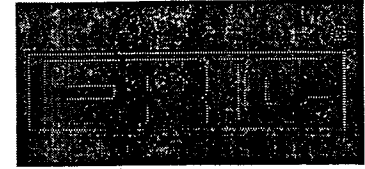
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