



Legislative Fiscal Bureau

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May, 2019

Joint Committee on Finance

Paper #418

FSET-- Vendor Pay-for-Performance Payment System (Health Services -- FoodShare)

[LFB 2019-21 Budget Summary: Page 220, #4]

CURRENT LAW

FoodShare recipients in Wisconsin have the option to participate in the FoodShare Employment and Training (FSET) program, either as a way to meet the 80 hour per month work requirement for able-bodied adults without dependents (ABAWDs), or as a way to expand their career opportunities. The Department of Health Services (DHS) contracts with eight tribes and eight vendors in 11 FSET regions across the state to provide FSET services.

2017 Wisconsin Act 266 requires DHS to create and implement a payment system based on performance for FSET program vendors. Specifically, DHS must establish performance outcomes for the payment system based on: (a) the placement of participants into unsubsidized employment; (b) whether the placement is full or part-time; (c) the job retention rate; (d) wages and benefits earned; (e) appropriate implementation of FSET; and (f) customer satisfaction. Implementation of the payment system is contingent on federal approval and must not affect the funding available for supportive services for participants in FSET.

These provisions first apply to contracts DHS enters into or renews on or after April 12, 2018. However the Department's current contracts with the FSET vendors, effective for federal fiscal year 2018-19 (October 1, 2018 through September 30, 2019), do not include performance outcomes as the basis for payments.

GOVERNOR

Repeal provisions enacted in 2017 Act 266 that require DHS to create and implement a payment system based on performance for FSET program vendors, as described above.

DISCUSSION POINTS

1. In 2014, DHS issued a request for proposals (RFP) to solicit vendors to provide FSET services to ABAWDs subject to the work requirements implemented as part of 2013 Wisconsin Act 20. DHS received between one and four bidders for each region, with some vendors bidding to serve more than one region. DHS selected some vendors to serve multiple regions.

2. The initial vendor contracts expired on September 30, 2016. However, the contracts allowed for two one-year extensions. DHS authorized these extensions for federal fiscal year 2017 and 2018 for the original vendors. Subsequently, an RFP for new vendor contracts was released in the autumn of 2017. The effective date of the current vendor contracts is October 1, 2018, through September 30, 2019, with the option to renew for an additional four one-year renewal terms upon mutual agreement between DHS and the vendor.

3. The current contracts between DHS and the FSET vendors specify the terms and conditions of service provision, and provide funding up to a specified total dollar amount. FSET vendors receive reimbursement from DHS for invoiced costs that are eligible under the program.

4. FSET vendor costs can generally be grouped into three categories: (1) administrative costs, which include employment and training programming costs; (2) participant reimbursement costs, which include transportation, childcare, tuition, and other incidentals related to participating in the program; and (3) job retention costs, which provide support for FSET participants that have entered employment.

5. Under current law, DHS must create and implement a payment system based on performance for FSET program vendors. Specifically, DHS must establish performance outcomes for the payment system based on: (a) the placement of participants into unsubsidized employment; (b) whether the placement is full or part-time; (c) the job retention rate; (d) wages and benefits earned; (e) appropriate implementation of FSET; and (f) customer satisfaction. Implementation of the payment system is contingent on federal approval and must not affect the funding available for supportive services for participants in FSET.

6. Despite the current law requirement, the Department's current contracts with the FSET vendors, effective for federal fiscal year 2018-19 (October 1, 2018 through September 30, 2019), do not include performance outcomes as the basis for payments. DHS indicates that since the RFPs for the current contracts were released on November 29, 2017, in advance of the January, 2018, special session that created the pay-for-performance provisions, it was not possible to include these measures in the RFPs for the current contracts. Adding these measures to the contracts without including them in the RFPs could have jeopardized the procurement process.

7. Furthermore, the contracts had to be finalized before DHS had time to begin to plan the implementation of the pay-for-performance system. DHS indicates that the Department cannot currently track all of the criteria specified in Act 266. As such, DHS would need to establish data sharing agreements with other state agencies, create the systems necessary to track the criteria in Act 266, and amend the vendor contracts to require FSET vendors to collect additional data that the Department cannot access through systems upgrades.

8. DHS argues that, absent a waiver, the only way to interpret Act 266 in compliance with federal law is to create a bonus structure based on the pay-for-performance measures. This is because the federal Food and Nutrition Services (FNS) requires states to pay SNAP employment and training agencies on a reimbursement basis for necessary, reasonable, and actual costs.

9. The Committee may be concerned that incentivizing performance outcomes over individualized case management could result in FSET participants not receiving personalized wrap around case management services but rather receiving more generic, outcome driven, short-term services that guarantee the vendor bonus payments. As such, the Committee could approve the Governor's recommendation to repeal the requirement that DHS create and implement a payment system based on performance for FSET program vendors [Alternative 1].

10. On the other hand, the Committee could determine that the historical structure of the FSET vendor contracts does not incentivize the FSET vendors to improve outcomes for program participants. Additionally, since eight of the eleven FSET regions are currently served by vendors also providing Wisconsin Works (W-2) services, the Committee could require DHS to seek a waiver from FNS to develop and implement a funding mechanism for FSET vendors based on the structure for W-2 vendor reimbursement and the region served.

11. Generally, under W-2, vendors are paid a monthly contract amount, with additional payments available based on performance outcomes (such as total case count and the percentage of the prior year's budget the agency earned) and incentives (such as completion of a GED or obtaining employment).

12. If FNS grants the waiver, the Committee could require that the approved payment mechanism form the basis of the FSET vendor contracts for federal fiscal year 2021. Under this alternative the Committee could prohibit DHS from implementing this provision absent federal approval of a payment mechanism based on capitated payments and performance based incentive payments [Alternative 2].

13. Alternatively, the Committee could take no action on the Governor's recommendation to repeal the requirement that DHS create and implement a payment system based on performance for FSET program vendors. Under this alternative, the Committee would retain the current provisions, and fund bonuses to the FSET vendors starting in 2020-21. The Committee could budget any amount for bonus payments. It is possible, but not certain, that performance bonuses could be partially funded with federal matching funds. DHS estimates that approximately 25% of the total funding provided as bonus payments could be supported with federal matching funds. Consequently, the Committee could provide \$2,000,000 (\$1,500,000 GPR and \$500,000 FED), annually beginning in 2020-21, to fund bonus payments [Alternative 3a] or \$1,000,000 (\$750,000 GPR and \$250,000 FED) annually, beginning in 2020-21, to fund bonus payments [Alternative 3b].

14. In addition, in its 2019-21 biennial budget submission, DHS requested funding to support contracted services to implement the pay-for-performance contracts totaling \$600,000 (\$300,000 GPR and \$300,000 FED) in 2019-20 and \$100,000 (\$50,000 GPR and \$50,000 FED) in 2020-21. If the Committee chooses to retain the pay-for-performance provisions relating to FSET, this amount should be provided to fund DHS estimates of implementation cost [Alternatives 3a and 3b].

15. Finally, funding and position authority for 0.5 FTE contracts specialist position, beginning in 2019-20 to implement the payment system, is addressed in LFB Paper #419.

ALTERNATIVES

1. Approve the Governor's recommendation to repeal the requirement that DHS must create and implement a payment system based on performance for FSET program vendors.

2. Modify the current pay-for-performance payment mechanism to require DHS to seek a waiver from FNS to develop and implement a funding mechanism for FSET vendors based on the structure for W-2 vendor reimbursement and the region served. If FNS grants the waiver, require that the approved payment mechanism form the basis of the FSET vendor contracts for federal fiscal year 2021. Further, prohibit DHS from implementing this provision absent federal approval of a payment mechanism based on capitated payments and performance based incentive payments.

3. Take no action, thereby retaining the current statutory provisions relating to pay-for-performance contracts with the FSET vendors and select one of the following to fund the bonus payments and estimated implementation costs.

a. Increase funding in the bill by: (a) \$2,000,000 (\$1,500,000 GPR and \$500,000 FED) in 2020-21 to fund pay-for-performance bonuses to vendors; and (b) \$600,000 (\$300,000 GPR and \$300,000 FED) in 2019-20 and \$100,000 (\$50,000 GPR and \$50,000 FED) in 2020-21 to provide funding for DHS to contract for information systems changes to administer the pay-for-performance bonuses.

ALT 3a	Change to	
	Base	Bill
GPR	\$1,850,000	\$1,850,000
FED	<u>850,000</u>	<u>850,000</u>
Total	\$2,700,000	\$2,700,000

b. Increase funding in the bill by: (a) \$1,000,000 (\$750,000 GPR and \$250,000 FED) in 2020-21 to fund pay-for-performance bonuses to vendors; and (b) \$600,000 (\$300,000 GPR and \$300,000 FED) in 2019-20 and \$100,000 (\$50,000 GPR and \$50,000 FED) in 2020-21 to provide funding for DHS to contract for information systems changes to administer the pay-for-performance bonuses.

ALT 3b	Change to	
	Base	Bill
GPR	\$1,100,000	\$1,100,000
FED	<u>600,000</u>	<u>600,000</u>
Total	\$1,700,000	\$1,700,000

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