

Child Welfare Waiver Demonstrations Commonly Asked Questions About Cost Neutrality

1. *What is Cost Neutrality?*

Cost neutrality means that a title IV-E agency cannot be reimbursed for more title IV-E funds for children served by the demonstration than it would have received without the demonstration. It is a requirement of the legislation authorizing title IV-E waivers that the demonstration be cost neutral over the life of the demonstration (see Sec. 1130(h) of the Social Security Act, as amended by Public Law 112-34).¹

2. *What is the formula for determining cost neutrality?*

Various approaches to meeting cost neutrality requirements have been approved over the years. An appropriate method for meeting cost neutrality requirements will be developed through negotiation between the Department of Health and Human Services and the title IV-E agency and will take into account the specific circumstances of the agency's proposed project.

One traditional formula for determining cost neutrality is based on an evaluation design that includes an experimental and a control/comparison group. Under this formula, cumulative title IV-E payments for children in the control or comparison group (those for whom a title IV-E agency may claim reimbursement for usual title IV-E expenditures) are divided by the number of children ever assigned to the control/comparison group. This amount is the average title IV-E payment per child. The average title IV-E payment is then multiplied by the number of children ever assigned to the experimental group. This number (referred to as the cost neutrality limit) represents the total title IV-E payments that the agency can receive for children assigned to receive demonstration services. See the example below.

Step 1: Cumulative cost for control group cases = \$2,000. Number of control group cases ever assigned = 20. $\$2,000/20 = \100 , the average cumulative cost per control group case.

Step 2: $\$100 =$ average cumulative control group cost per case. Number of experimental cases ever assigned = 35. $\$100 \times 35 = \$3,500$. This number represents the cost neutrality limit, or the maximum amount of title IV-E expenditures for which a title IV-E agency may be reimbursed for children served through the waiver demonstration.

3. *Are there alternative ways to calculate cost neutrality?*

In the past, some States that have implemented what are referred to as "flexible funding" waiver demonstrations, in which a State (or group of counties within a State) receives a capped quarterly or annual allocation of title IV-E funds that may be spent on a range of

¹ A copy of Sec. 1130 is in the Background Information section of this technical assistance kit.

child welfare services at the discretion of local officials, rather than funds for a specific intervention. Some such projects that were not implemented statewide used comparison counties for both evaluation and cost neutrality purposes. In these instances, cost neutrality limits were determined by examining the rate of growth in title IV-E costs in the comparison counties not participating in the demonstration during the time period of the demonstration and then applying that rate of change to the costs of the participating counties.

In other projects that were implemented statewide, or where no appropriate comparison counties were available, a cost neutrality limit was set based on an analysis of historical trends in the State's title IV-E expenditures. In these instances, negotiation between the State and the Federal government led to development of a fixed schedule of title IV-E foster care payments, which consisted of a base allocation (based on title IV-E claims made by the State in the most recent complete fiscal year prior to implementation of the demonstration or an average of several recent years) and a growth factor (e.g., 2 percent).

4. *Must all title IV-E costs be part of the cost neutrality calculation?*

No. The categories of cost to be included in the cost neutrality formula will be determined based on an examination of various factors. Factors to consider include the nature of the proposed intervention(s) being carried out under the demonstration, the areas in which the title IV-E agency is seeking flexibility to use funds in ways not normally authorized by title IV-E without a waiver, and the expected impact of the demonstration on categories of title IV-E cost. In the past, for instance, some projects have been based only on title IV-E foster care maintenance costs, while others included both title IV-E foster maintenance and administrative costs. Some included title IV-E Adoption Assistance costs, as well. Some projects have specifically excluded costs for information systems and training from cost neutrality limits, because these costs were not expected to be affected by the demonstration. Final decisions on which categories of cost to include will be determined based on negotiation between the Federal government and the title IV-E agency submitting the proposal.

5. *What happens if the actual costs for the children participating in the demonstration exceed the cost neutrality limit?*

Regardless of the methodology used, the title IV-E agency is responsible for costs in excess of the cost neutrality limit.

6. *What happens if the actual costs for children participating in the demonstration are less than the cost neutrality limit?*

The title IV-E agency must re-invest the savings in some child welfare-related activity. This would include any expense or service that could otherwise be funded under title IV-B or IV-E of the Social Security Act.

7. *Are there any costs related to the demonstration that are not part of the cost neutrality formula?*

Yes, developmental costs and evaluation costs are excluded from the formula (see below). Both types of expenses are claimed at the same Federal Financial Participation (FFP) matching rates as other IV-E claims, but they are not part of the formula for cost neutrality.

8. *What are developmental costs? What time period does the developmental phase cover?*

Developmental costs are the expenses a State incurs to establish the demonstration (see Section 4 of the boilerplate Terms and Conditions that cover cost neutrality). Examples of developmental costs include expenses associated with modifying or enhancing an information system to accommodate the implementation of a demonstration and staff training. Developmental costs begin with the preparation of your proposal and continue until the date implementation begins. Note that once implementation occurs at any site or for any component of the demonstration, all developmental costs cease to be counted outside of the cost neutrality formula. A developmental cost plan must be prepared within 30 days of acceptance of the Terms and Conditions. In addition, extensions of existing waivers do not include a developmental phase; therefore, a title IV-E agency that receives a waiver extension may not claim developmental costs outside of the cost neutrality formula.

9. *What are evaluation costs? When do they begin and end?*

Evaluation costs include the expenses incurred by the external evaluator as well as those incurred by the agency that are directly related to the evaluation effort. Evaluation costs begin with the first evaluation planning activities and continue until the final evaluation report is submitted (typically six months after the demonstration has ended).