

Colorado
Division for Developmental Disabilities
Rate Setting and Waiver Consultation Project

SETTING RATES FOR COMMUNITY SERVICES

A PROPOSAL

BACKGROUND:

The contract awarded to the Human Services Research Institute (HSRI) and Navigant Consulting, Inc. (NCI) includes, among other features, the restructuring of payment rates for services in the Comprehensive and Supported Living Services waivers. Many of the new payment rates will be based on individual support needs, as reflected in the Supports Intensity Scale.

As a general matter, the HSRI/NCI approach to rate determination stresses the application of a standard rate-determination framework that bases rates on the level of direct staff effort necessary to deliver a particular service to persons based on each person's measured level of support need. Other components of the rate are based on observed usual and customary provider costs. This approach is designed to yield payment rates that are directly related to consumer support needs while ensuring equitable levels of provider compensation for non-direct staff costs. Central to this framework is the fundamental rate determination principle that a state's payment for services should ensure that each provider of a service receives sufficient compensation to support the delivery of necessary services to each individual. Payments for community services should be scaled to take into account assessed differences in supports needs based on a standardized assessment of such needs while promoting the economical and efficient delivery of services.

The initial expectation was that the development of provider rates would be anchored by comprehensive provider cost information. These data were expected to present a clear picture of baseline costs and, thereby, support analyses of current costs and the impact of making changes in provider rates. This original approach stressed the acquisition of provider cost data as a critical

component in the development of realistic rates. The HSRI/NCI project team has found that these data typically provide a foundation for rates that are materially related to underlying observed provider costs and not fashioned from unreliable or unsubstantiated means.

AVAILABLE PROVIDER COST DATA

HSRI/NCI team members, through extensive review of available data and discussion with State managers, have concluded that available Community-Centered Board and provider cost data do not support the level of data analysis required for this project. This in no way suggests that significant data related to cost and payments is not available. Quite the opposite it true. The State collects cost data. The Community-Centered Boards collect and/or maintain considerable payment data and internal expenditure data and are required to have regular financial audits. Most provider agencies maintain expenditure data as part of their budget and financial management activities. In addition, the State, with CCB support, completed a survey of CCB payments in May 2005.

All of these data sources appear effective in providing financial management data and appear to be used to support claims for payment at the State and Community-Centered Board levels. Despite these strengths, the available cost data does not support the expected cost analysis in support of creating a new rate methodologies and recommending new payment levels for a number of key reasons, including:

- ❖ There is no common “chart of accounts” that would structure each CCB or provider cost data in ways that allowed the necessary integration and analysis;
- ❖ The cost data that does exist is amalgamated and undifferentiated; it does not split direct costs by type of setting (e.g., group homes v. foster care) and does not sub-allocate indirect costs to such cost centers. Even with significant project effort it is unlikely that this could be disentangled with enough accuracy to provide the proper foundation for the cost analysis.
- ❖ The funds that were disbursed through the CCB’s varied dramatically, both in terms of how much was paid for similar services as well as how some CCB’s integrated significant non-Medicaid and non-General Fund dollars to support payment for services. Therefore, CCB’s may have had opportunity to supplement funding that would be available through the

- State's payments, thereby creating artificial differences in cost. This significantly impacts the comparability of any reported costs as well.
- ❖ The May 2006 Cost Survey documented CCB payment levels for waiver services but did not include CCB or provider agency expenditure data that documents what expenditures are associated with those payment levels;
 - ❖ The cost data that may be available from a sample of CCB's and/or provider agencies would have to be validated and "data scrubbed" to make sure that similar definitions and sub-allocation protocols were used and that data was accurately entered to the extent that any analysis could be expected to produce insightful and credible results and findings. This would require an intensive, on-site effort that would take a minimum of three months to complete, even if additional resources were available for the project. The ambitious project timeframes does allow for this investment of time.
 - ❖ The audit data is not sufficient because it is typically of value for benchmarking certain financial metrics in support of a cost study or analysis, but does not offer the level of detail needed to substitute for the data included in a cost analysis.

COST METHODOLOGY – THE PROPOSAL

The HSRI/NCI project team is proposing to substitute a "cost methodology" approach to developing new payment rates for Comprehensive and SLS waiver services. This methodology has broad industry application; especially in service systems like the State's that do not collect cost report data. In essence, a cost methodology approach allows the State to identify the key cost elements that are associated with payment levels (i.e., hourly wages by staff category, benefits, supervisory ratios, agency and/or program administration, geographic differentials in costs, etc.). Data related to each cost element is researched using all available sources (i.e., the Bureau of Labor Statistics on hourly wages by staff category, national or other state agency geographic differentials, etc.). These data are then compared to data collected through a CCB and provider agency survey that identifies the local experience with regard to some of these cost elements. Thus, local data informs the team whether many, most or all CCB's and provider agencies costs that are consistent with that reported to the Bureau of Labor statistics.

In this way, the new rate methodologies and payment levels are developed using a cost model constructed using “industry standard” data that is adjusted for local experience. It should be noted that the cost model approach also provides better analytic support for differentiating payment levels for the same service by tiers and integrating the SIS data; a current rate setting approach that is expected to be continued in some form with the new proposed methodology.

STAKEHOLDER PARTICIPATION

Use of the cost methodology or cost model also changes the HSRI/NCI project team’s interest in stakeholder participation. There is value in having them assist in identifying and defining key cost elements, understanding and accepting the databases being used, helping develop the survey instrument to collect limited local data, and developing and understanding the assumptions that will drive the final payment level calculation. Stakeholder involvement and understanding of the process and the cost model and cost methodology are critical to the State’s roll-out of the new payment levels.

With this in mind, the HSRI/NCI project team proposes that a small (12-15 member) stakeholder group be developed for this component of the project. The State, with HSRI/NCI support, will develop the mission, guiding principals and outcomes for development of the cost model and cost methodology and finalize them with the stakeholder group. These will promote the common understanding that is important to the working partnership with the stakeholder group.

This stakeholder group should include a number of finance experts from the CCB’s and provider agencies as well as some executives. It should also include State staff and staff from the Department of Health Care Policy. Consideration should be given to including consumers or family members.:-

CONCLUSION

With this shift from the original cost study or cost analysis approach to developing a cost model or cost methodology, the HSRI/NCI project team is confident that the State will have a methodology that meets the needs and objectives outlined in the original RFP.