

MAY 9, 2019

# Options and Considerations for Implementing the DDS Rate Study

---

PRESENTED TO: Senate Budget Subcommittee No. 3 on  
Health and Human Services  
Hon. Richard Pan, Chair



LEGISLATIVE ANALYST'S OFFICE

# Overview

---

## Statutorily Required Rate Study

### *2016 Legislation Provided \$3 Million for a Rate Study of the Developmental Services (DDS) System*

- Rate reform in the DDS system is a legislative priority and intended to address concerns about consumer access to quality services, especially as the DDS consumer population continues to grow rapidly.
- Per statute, the rate study was to address the sustainability, quality, and transparency of services. It was to specifically examine whether there are enough service providers in the system, the fiscal effects of other rate-setting methods, how rate setting can be used to improve outcomes for consumers, and whether current service codes could be simplified and modified to reflect current practices.
- DDS selected Burns & Associates (Burns) as the contractor to conduct the study.
- The rate study was submitted to the Legislature on March 15, 2019.

## Rate Study Benefits

### *The Rate Models Proposed by Burns Are:*

- Transparent.
- Logical.
- Relatively easy to update.
- Equitable across service providers.

### *Rate Study Presents a Real Opportunity to Take Substantive Action*

- Less than full implementation of the proposed rate models in 2019-20 risks creating a dual rate-setting system—one based on the logic of the proposed rate models and one based on current methods—if state conditions or legislative priorities change in the future.



## Overview

---

*(Continued)*

- As discussed below, full implementation may not be feasible in 2019-20. However, the Legislature has numerous options for starting the process with some providers, while also providing a measure of fiscal relief to other providers. We suggest the Legislature do as much as reasonably possible—both fiscally and administratively—in 2019-20, based on the proposed rate models.

### **Why Full Implementation in 2019-20 Is Not Feasible**

***Fiscal Constraints.*** The cost for full implementation is estimated at \$1.9 billion (\$1.2 billion General Fund) over the Governor’s proposed 2019-20 budget—a substantial dollar amount competing with other legislative funding priorities.

### ***Implementation and Administrative Constraints***

- Enacting required policy changes in statute, regulations, and administrative guidance documents.
- Attaining required federal approvals of rate and service changes to access federal funding.
- Making necessary day-to-day operational changes at the DDS, regional center (RC), service provider, and consumer levels.



# Options to Begin Implementing Proposed Rate Models in 2019-20

---

## How We Selected and Assessed Potential Options

### *Implementation Feasibility*

- Could the practical challenges be realistically addressed in 2019-20?

### *Efficacy*

- Would the approach lead to the state's desired outcomes?
  - Would it increase consumer access to services?
  - Would it improve the quality of services?
  - Would it lead to rate parity among similar types of providers?
  - Would it lay the groundwork for full implementation of rate models?

### *Rate Model Readiness*

- Are the relevant rate models refined enough to begin implementation?
  - Are the assumptions sound?
  - Are any changes needed to the inputs?
  - How serious are the changes needed?

## Option #1 – Staged Rollout

### *Description*

- Implementation of rate models in select service categories.
- Simultaneous development of a plan and time line for subsequent rollout of rate models in other categories.
- For the first stage of rollout of proposed rate models in 2019-20, rate models in four particular service categories are possible candidates, largely reflecting the feasibility of implementation and the relatively refined nature of these particular rate models. Figure 1 (see next page) shows the estimated costs to implement the rate models for these service categories in 2019-20.



# Options to Begin Implementing Proposed Rate Models in 2019-20

(Continued)

**Figure 1**  
**Estimated Cost to Roll Out Rate Models for Select Service Categories in 2019-20**  
*2019-20 Costs (In Millions)*

Service Category	Increased Costs, Relative to Proposed 2019-20 Budget	
	Total Funds	General Fund
Residential services (not including shared supported living services)	\$948	\$607
Supported employment (group and individual)	24	15
Respite (including agency- and participant-directed)	50	32
Independent living services (including specialists)	-1	-1
<b>Totals (if All Four Categories Were Implemented)</b>	<b>\$1,021</b>	<b>\$653</b>

## Assessment of Option #1

- **Implementation Feasibility.** The rate models in these four categories would not require significant changes from current practice.
- **Efficacy**
  - Residential services: Current rates are outdated; to the extent low rates affect access or quality, rate models could help.
  - Supported employment: Employment rate for consumers is currently very low; rate models may only have a modest impact, however, given rate changes (up for some providers, down for others).
  - Respite: To the extent there are current problems related to access or quality, implementation of rate models could help.
  - Independent living services: This will be an important service as the system becomes more “person-centered,” yet the rate model proposes an aggregate rate decrease.
  - Laying the groundwork for full implementation: Rolling out proposed rate models in categories with relatively fewer problems



# Options to Begin Implementing Proposed Rate Models in 2019-20

---

*(Continued)*

gives DDS time to resolve challenges associated with models in other categories before they are implemented.

- **Rate Model Readiness.** Rate models in these four categories are relatively refined, with at least two major exceptions—the wage assumption for independent living services (potentially too low) and the administrative cost assumption for participant-directed respite (administrative costs currently excluded).

## Option #2—Staged Rollout With Pilot Projects in Other Categories

### *Description*

- Staged rollout of the rate models in four service categories (or some of them) as described above.
- Pilot projects in other service categories to gain an understanding of the implementation, programmatic, and administrative challenges to implement the proposed rate models in these categories.
- Pilot projects would be overseen by DDS and administered by up to three RCs with a small number of service providers in each service category.
- Final lessons learned to be provided to the Legislature before statewide rollout of the pilot-tested rate models.

**Fiscal Impact of Pilot Projects.** The Legislature could appropriate a fixed amount and DDS could design the pilot program accordingly within the fiscal parameters. The amount could be relatively low and take into account:

- Number of RCs, service categories, and service providers to include.
- How many consumers served by each provider.
- Administrative resources needed by DDS and RCs.



# Options to Begin Implementing Proposed Rate Models in 2019-20

---

(Continued)

## ***Assessment of Option #2, Pilot Projects***

- ***Implementation Feasibility.*** Pilot projects would raise a number of implementation issues to be addressed:
  - We suggest using the General Fund to avoid the lengthy process of seeking federal approval.
  - We suggest providing flexibility to DDS and RCs to allow them to test what does and does not work.
  - Providers receiving rate reductions may have little incentive to participate. It is still unclear how to resolve this issue as offering financial incentives would compromise the integrity of the pilot.
- ***Efficacy.*** Pilots would not lead to widespread improvements in access to services, quality of services, or parity across providers given their small scale. They would, however, lay the foundation for statewide implementation, as they would test the best ways to implement rate models.
- ***Rate Model Readiness.*** Rate models in a number of categories—such as day programs, transportation, and early intervention—may need refinement. Pilots could be conducted as refinements are made to test best practices.



## “Status Quo” Options for Increasing Funding

---

As the state begins to implement rate reform, the Legislature may wish to provide fiscal relief to service providers not benefiting from a new rate model rolled out in 2019-20. Below are options that have been identified by Members and advocates in budget hearings.

- **Fix State Minimum Wage Quirk.** This quirk prevents vendors in areas with local minimum wage ordinances from seeking state-funded rate increases associated with increases in the state minimum wage that are made available to other providers. A fix could begin with the January 1, 2020 state minimum wage increase.
- **Cover Local Minimum Wages.** Paying for costs associated with local minimum wages would represent a significant shift in policy and could be costly.
- **Repeal the Uniform Holiday Schedule Policy.** This was a recessionary budget solution.
- **Repeal the Half-Day Billing Policy.** This was a recessionary budget solution.
- **Restore Social Recreation and Camp Services.** This was a recessionary budget solution.
- **Increase Rates Across the Board.** Several Members and advocates have proposed an 8 percent across-the-board rate increase. While this would be administratively easy to implement, it may not be the most cost-efficient solution. One trade-off is that some providers could face a future rate reduction after full rate study implementation.

Figure 2 (see next page) shows cost estimates provided by DDS for these status quo options (these reflect the cost to provide the increase to all providers and would be lower if packaged with a staged rollout of the rate models proposed).



## “Status Quo” Options for Increasing Funding

(Continued)

**Figure 2**

**Summary of the Added 2019-20 Costs to Implement Status Quo Options Under the Current Rate Framework**  
(In Millions)

Option	Total Funds	General Fund
Fix the state minimum wage quirk <sup>a</sup>	\$16.1	\$8.0
Cover local minimum wage	Unknown	Unknown
Repeal uniform holiday schedule	50.3	30.1
Repeal half-day billing policy	2.7	1.6
Restore social recreation and camp services <sup>b</sup>	23.2	14.8
Increase rates across the board: 8%	464.0	296.5
Increase rates across the board: 4%	232.0	148.3

<sup>a</sup> Beginning with the January 1, 2020 state minimum wage increase.

<sup>b</sup> The cost to restore social recreation and camp services in 2019-20 would reflect a ramp-up period. The Department of Developmental Services estimates the full-year cost at \$42.9 million total funds (\$27.3 million General Fund).

Note: These amounts reflect the cost to apply the increase to *all* service providers and would likely be lower if packaged in combination with a staged rollout of the proposed rate models.



## Packaging Options

The staged rollout (with or without pilot projects) could be packaged with any number of the status quo funding increase options. Various General Fund costs are provided in Figure 3.

**Figure 3**

### Cost to Package Staged Rollout With Individual “Status Quo” Funding Increase Options

2019-20 Estimated General Fund Cost<sup>a</sup> (In Millions)

Status Quo Funding Increase Options	Staged Rollout of Rate Study Models				Example Combinations . . .	
	Residential Services	Employment Services	Respite Services	ILS	Employment, Respite, ILS	All Four Services
Fix state minimum wage quirk <sup>b</sup>	\$615	\$23	\$39	\$7	\$53	\$660
Repeal UHS	637	45	62	29	76	683
Repeal half-day billing policy	609	17	33	1	48	655
Restore social recreation and camp services	622	30	46	14	61	668
Increase rates across the board: 8%	816	304	308	288	307	914
Increase rates across the board: 4%	712	160	170	144	176	784
<b>Example Combinations . . .</b>						
Fix state minimum wage quirk and repeal UHS	645	53	69	37	83	690
Repeal UHS and half-day billing policy, restore social recreation and camp services	654	62	78	46	93	700

<sup>a</sup> Cost is relative to the Governor’s 2019-20 budget proposal.

<sup>b</sup> Beginning with the January 1, 2020 state minimum wage increase.

Note: We do not include the status quo funding increase option of fully covering local minimum wages because the cost is unknown.

ILS = independent living services and UHS = uniform holiday schedule.



## Other High-Level Considerations

---

### *Trade-Offs of the Proposed Rate Models*

- Proposed rate models apply one rate-setting approach—an approach that is akin to a fee-for-service system—in all service categories. A few service categories may benefit from alternative approaches—such as a bundled-service approach.
- Proposed rate models reflect rate reductions in certain service categories implying that some services are currently overfunded, yet it raises questions about how access will be affected.
- Proposed rate models do not explicitly consider local minimum wages.
- Proposed rate models add administrative complexity in some cases.
- Proposed rate models in certain categories—such as Early Start—may require additional deliberation and refinement (even if they are piloted).

***Compliance With Home- and Community-Based Services Requirements.*** DDS should be more transparent about how the rate models reflect Home- and Community-Based Services requirements and DDS priorities.

### *Service Quality and Innovation Under Proposed Rate Models*

- Some features, such as providing premiums for non-English speaking workers, could at least indirectly lead to higher quality services.
- The rate study offers future options for greater professionalization of direct support professionals, but this aspect is not currently part of the fiscal estimate.
- It is unclear whether and how the proposed rate models can be used to promote innovation.

***Self Determination.*** It remains unclear how DDS will reconcile the self determination program (in which consumers and families will negotiate rates with service providers of their choice) with rate reform.

