

Commonwealth of Massachusetts
Executive Office of Health and Human Services



**EOHHS REPORT TO
ADMINISTRATION AND FINANCE:**

**RECOMMENDATIONS FOR
REFORMING THE PURCHASE OF
SERVICE SYSTEM**

January 2008

Executive Summary

The human service industry and its workforce play vital roles in the Commonwealth, both as an economic contributor and as a partner in delivering care to citizens.

In October 2007, the Executive Office of Health and Human Services (EOHHS) released a report that demonstrated marked instability in the financial health of Massachusetts human service organizations¹. This report linked the relatively unstable condition of the human service sector, in part, to Commonwealth human service purchasing practices.

For decades there has been wide-spread acknowledgement that the following challenges complicate the management of the Purchase of Service (POS) sector and compromise the stability of provider organizations:

- **POS reimbursement rates are not set with reference to market prices.** Rates in the POS system are not based on the actual price of the service. Instead, they are typically based on available budget divided by the desired volume of services purchased. These rates frequently do not cover the full cost of providing services and do not support a fair wage for human service workers.
- **POS reimbursement rates are non-standard and often not transparent.** Rates are often negotiated on a provider and program specific basis across EOHHS agencies and regions. This leads to a lack of transparency and predictability regarding prices and costs.
- **Multi-year contracts are not reviewed with reference to inflationary cost increases.** Multi-year contracts typically do not include provisions for a systematic review of rates for adequacy with consequent adjustment, as appropriate, to reflect inflationary cost increases.
- **There is no consistent way of identifying similar services across the Secretariat's purchasing agencies.** POS services are developed independently by state agencies with minimal Secretariat-wide coordination. Frequently, similar services and contracts are developed and purchased independently by agencies from the same community providers. This increases administrative burden for providers and limits opportunities for collaborative program development across agencies.

In light of these challenges, the Secretary of EOHHS has set forth the following principles as a framework to ensure that provider organizations are financially stable and able to provide high quality services:

1. **Community First:** Families and individuals are best served in the community, not in institutional settings. The Commonwealth's community system must be stable and capable of meeting the highest standards of care.
2. **Fair Wage:** Workers employed in the Commonwealth's Purchase of Service system must earn a fair wage.

¹ DMA Health Strategies, October 2007

3. **Rate Reform:** Rates of reimbursement for community providers must cover the full complement of costs incurred by a reasonably efficient provider, must be based on a transparent rate setting methodology and should be reviewed regularly for adequacy.
4. **Quality and Accountability:** Human service contracts should be focused on achievement of measurable quality and outcome benchmarks and, where relevant, should provide incentives for quality and outcome attainment.
5. **Cross-Secretariat Efficiency and Consistency:** The entire POS system should be reviewed for efficiency, both in its management and delivery. Business practice, administration, and contract management should be consistent wherever appropriate across state agencies.

To uphold these principles, the EOHHS Purchase of Service Policy Office recommends the following reforms to the POS system. These changes modify current rate development and administrative practices within EOHHS agencies:

1. **Secretariat Rate Development Authority:** EOHHS will establish a Secretariat-wide capacity to analyze the cost of POS programs and to develop, in collaboration with purchasing agencies, clear methodologies for determining POS reimbursement rates. Rates will be based on the actual costs of achieving the level of quality and/or outcomes desired from a particular program.
2. **Fair Wage:** The Commonwealth will bring Purchase of Service Human Service Employee salaries up to a fair wage. Providing for adequate worker salaries is at the center of efforts to ensure that providers can recruit and retain dedicated, skilled staff, and deliver quality community-based services to citizens of the Commonwealth.
3. **Secretariat-wide Service Classes:** EOHHS will develop cross-agency “Service Classes”. Service Classes will be groupings of services purchased across the Secretariat by different purchasing agencies for which there is a similar outcome or quality goal, similar drivers of cost, and similar client populations. Rate determination methodologies will be based on Service Classes.
4. **Standardized Rate Setting and Review:** Standardized rate setting methodologies will price POS programs according to Service Classes. Services that agencies uniquely purchase will be priced separately. All POS service contracts shall include a schedule specifying when rates will be reviewed for adequacy.
5. **Measurable Outcome and Quality Standards:** Recognizing that expected outcomes and quality standards sometimes vary according to client populations, service contracts will reward the achievement of quality and outcome goals wherever relevant. Providing relatively higher reimbursement for service provision to more complex clients will ensure services to higher-need clients.

These principles and recommendations are discussed further in the following report.

Introduction

The Executive Office of Health and Human Services (EOHHS) and its 14 agencies rely on a network of over 1,100 independent, largely non-profit providers to deliver a wide variety of human services to vulnerable populations across the Commonwealth. Services include homes for adults with chronic mental illness or cognitive/physical disabilities, public health, substance abuse treatment, juvenile justice, child welfare, family support programs, and a range of other social services. In fiscal year 2007, EOHHS and its agencies purchased over \$2.6 billion in services from this “Purchase of Service” (POS) system, which in turn delivered care and support to over one million Commonwealth residents.

The Commonwealth shares a decided interdependence with this industry dating to the 1960’s and 70’s. During this time the state was a leader in developing strategies to move individuals out of institutional settings and into less restrictive, more humane community settings. Today, nearly half of the human service provider organizations that deliver care under Commonwealth contracts depend on Commonwealth sources for over 50% of their revenue. The Commonwealth also relies on this industry as a significant force within the larger Commonwealth economy. These organizations employ over 185,000 workers – over three percent of the state’s total workforce and comparable in size to the Commonwealth’s telecommunications industry. Worker spending contributes over \$112M to the Commonwealth in state and local taxes.²

In October 2007, the Executive Office of Health and Human Services released a study on the “Financial Health of Providers in the Massachusetts Human Service System.”³ The purpose of this study was to bring objective, quantitative analysis to bear on anecdotal reports and collective observation that the overall financial stability of the POS provider sector is at risk. The study confirmed that, in many areas, the financial health of human service providers in the Commonwealth is suffering, and Commonwealth policies have some association with poor financial health outcomes.

EOHHS invited provider representatives and the general public to participate in two listening sessions in response to the release of this report. Approximately 60 provider, state agency, and union representatives attended these listening sessions and twenty-three individuals provided written or oral testimony on behalf of their organizations. The testimonies supported the findings of the financial health report and provided further evidence of the vulnerability of the human service industry, and in particular the workforce within the industry.

In light of the evidence from the financial health report and from these testimonies, EOHHS is proposing a five part solution to address current POS management practices that contribute to overall financial instability in the POS provider sector. Recommended

² Figures summarized from The Future of the Human Services Workforce in Massachusetts. Donahue Institute, University of Massachusetts. 2006

³ DMA Health Strategies, October 2007

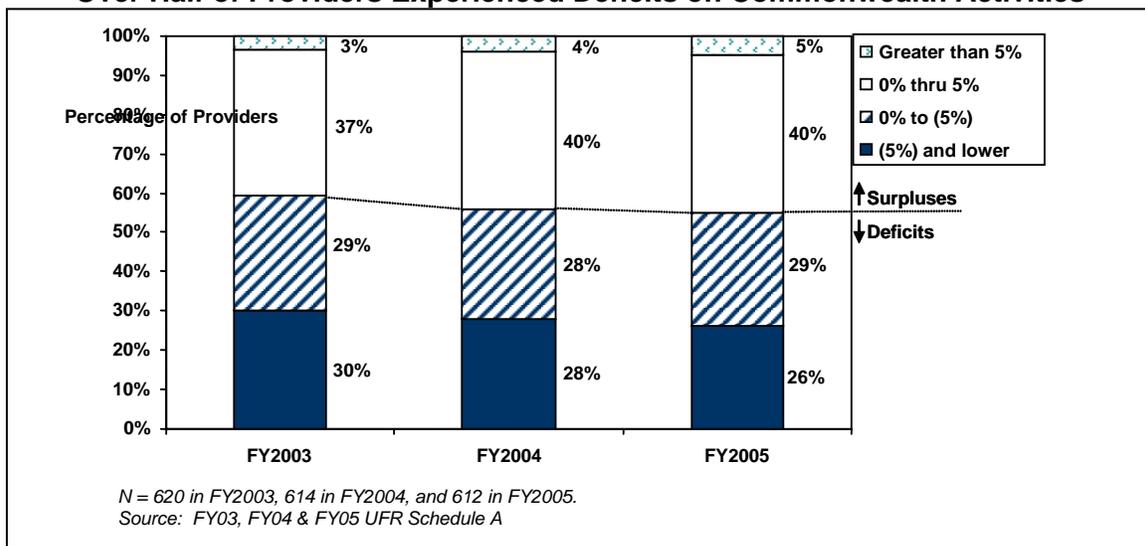
solutions address the rate-setting and review process and call for an investment to adequately address the costs of providing services on behalf of the Commonwealth.

CURRENT FINANCIAL STATUS OF MASSACHUSETTS POS HUMAN SERVICE PROVIDERS

Human service organizations, like any organization, must meet certain basic requirements in order to survive. They must have sufficient resources to cover their expenses; they must be solvent, and they must be capable of securing lines of credit. In addition, healthy not-for-profit providers must end the year with a modest surplus, which they can re-invest into their organizations. This surplus is necessary to invest in infrastructure for the long-term health and stability of the organization. Providers with adequate resources to operate do not need to constantly manage crises and can devote their efforts to innovating, improving and, when appropriate, to expanding services. Stable organizations better attract and retain high quality staff, which enhances continuity of care, service quality and administrative efficiency.

Analysis of the financial reports of approximately 615 POS providers included in the October report on provider financial stability showed sub par and at times precarious results on three important aspects of financial health: profitability, solvency, and liquidity. As shown in the chart below, the majority of providers in the sample report deficits on Commonwealth activities each year. Additional analysis indicates that even more providers, about 60%, show cumulative deficits on their Commonwealth activities since 1993. Many providers operate under considerable constraints because of low cash balances, and inadequate or negative expendable net assets. Some smaller providers may not have access to lines of credit or qualify for mortgages, while a significant percentage of providers are heavily leveraged, with liabilities that exceed their net asset balance.

Over Half of Providers Experienced Deficits on Commonwealth Activities



The study found that surplus or deficit on Commonwealth revenue is one of the most statistically significant factors affecting providers' overall ability to break even or generate a surplus. Changes to some of the Commonwealth's current rate development, administrative and contract management practices have great potential to improve providers' financial health outcomes and, in turn, the quality and outcomes of services to Commonwealth residents.

The EOHHS report outlined in detail many of the challenges facing the POS system that contribute to these poor provider financial health outcomes. The following section provides a summary of these challenges.

CURRENT MANAGEMENT PRACTICES AND CHALLENGES WITHIN THE POS SYSTEM

Limited Systematic Review of Provider Costs and Pricing

Unlike the MassHealth system, which is an entitlement program, POS services are funded as line items in the state budget and are delivered via contracts. Many of these contracts span multiple years and do not include reasonable inflation adjustments. In accordance with Operational Service Division (OSD) guidelines, purchasing agencies may renew contracts for up to eleven years. As a result, long periods often elapse with relatively few competitive re-procurements. While an eleven year contract may offer clients and state agencies the benefit of continuity and stability, in recent decades there has rarely been new funding available to adjust contract budgets at the time of annual budget negotiations. State agencies and providers often modify program staffing and overall program budgets to fit within available resources when the general cost of doing business has risen.

The impact of these factors on providers can take many forms. These include deferring routine facilities maintenance and information technology upgrades, scaling back on employee benefit plans, and skimping on investment in staff development. Most disturbing, however, is the impact these challenges have on the wages earned by human service workers.

In 2006, a study of the direct care workforce by the University of Massachusetts' Donahue Institute documented a significant gap in the wages earned by direct care workers in the human service sector to wages earned by workers in comparable positions in other sectors. The median wage of a direct care worker in the POS system is nearly \$15,000 less than what a worker in a comparable position in the health care sector would earn.⁴ Further EOHHS analysis reveals that, in fiscal year 2006, over half of full-time human service workers earned below 165% of the 2006 Federal Poverty Level – or less than \$27,390 for a family of three, the most predominant family size in Massachusetts.

⁴ The Future of the Human Services Workforce in Massachusetts. Donahue Institute, University of Massachusetts. 2006.

As a result of the current situation employees are working multiple jobs and struggling to provide for their own families, there is an extremely high turnover rate, an inability of provider organizations to attract and retain the best workers, and increased costs due to lost productivity and constant re-training of workers. All of this has great potential for adverse impact on the quality of care provided to Commonwealth citizens.

Lack of Transparency and Consistency in Reimbursement Rates

With some exceptions, POS reimbursement rates generally are not based on an analysis of actual cost. Rather, a rate in the POS system is typically the maximum obligation of a contract divided by the number of units the provider agrees to deliver in hours or days of service.

Often, decision authority for rates lies at the local level in EOHHS agencies. This ensures local control over the mix of services and investment. However, combined with other agency, provider and program specific negotiation practices, the resulting individualized budgets can be highly non-standard and difficult to compare, analyze, and monitor from a central level.

Further, many contracts in the POS system are executed on a cost reimbursement basis, in which no rate for the provided service exists. Cost reimbursement contracts account for 16% of total program revenues, and show a consistent, statistically significant negative relationship to financial health. Organizations are not allowed to make a surplus under this type of contract —as a result they are unable to build reserves to fall back on in times of need, or to invest in infrastructure or staff training. They also have little incentive to strive for efficiencies, since they will not enjoy any of the savings. In addition, these organizations may face some real costs for which they are unable to receive reimbursement, such as principal payments and unanticipated expenses incurred after the deadline for contract amendments. These limitations can lead to program losses and reduce the providers' ability to build their net assets, resulting in fewer resources to support financial stability.

Limited Cross-Agency Coordination in Service Management and Procurement

POS services are developed independently by agencies with minimal Secretariat-wide coordination. Each agency has its own way of naming POS programs, purchasing and reimbursing for them, and tracking their effectiveness. For example, agencies spend nearly \$1B on services that include some form of 24x7 care and approximately \$127M on services related to employment support – but EOHHS has limited systematic means for identifying these programs or comparing them for budget and quality purposes.

Frequently, community providers deliver similar services and hold contracts with multiple agencies at the same time. This increases administrative burden and inefficiency for providers and limits opportunities for collaborative program development across agencies.

Analysis conducted by EOHHS in 2003 demonstrated that over 75% of POS spending was concentrated among just 200 provider organizations, leaving 25% dispersed among 1,500 smaller providers. Spending and contracting activity of purchasing agencies overlaps significantly among the same providers. For example, analysis showed that, in FY03, over 50% of all POS spending by the Department of Mental Retardation (DMR) and the Department of Mental Health (DMH) was on services purchased from sixty-six common providers. By including the Department of Social Services, the analysis showed that nearly 40% of POS spending by all three agencies was on services from forty-four common providers.

PRINCIPLES FOR REFORM

In light of the challenges faced in reforming the POS system, the Secretary of EOHHS has set forth the following principles as a framework to ensure that provider organizations are financially stable and able to provide high quality services:

1. **Community First:** Families and individuals are best served in the community, not in institutional settings. The Commonwealth's community system must be stable and capable of meeting the highest standards of care.
2. **Fair Wage:** Workers employed in the Commonwealth's Purchase of Service system must earn a fair wage.
3. **Rate Reform:** Rates of reimbursement for community providers must cover the reasonable costs incurred by an efficient and economical provider, must be based on a transparent rate setting methodology, and should be reviewed regularly for adequacy.
4. **Quality and Accountability:** Human service contracts should be focused on achievement of measurable quality and outcome benchmarks and, where relevant, should provide incentives for quality and outcome attainment.
5. **Cross-Secretariat Efficiency and Consistency:** The entire POS system should be reviewed for efficiency, both in its management and delivery. Business practice, administration, and contract management should be consistent wherever appropriate across agencies.

The solution proposed below addresses the POS challenges in accordance with these principles for reform. The five part solution requires an investment and reform of current purchasing practices in the POS system; POS spending currently represents approximately ten percent of the Commonwealth budget.

RATE REFORM SOLUTION

1. Secretariat Rate Authority

EOHHS will establish a Secretariat level capacity to oversee the development of clear methodologies for determining POS reimbursement rates. Rates will be based on the price of purchasing specified outcomes or quality benchmarks from a reasonably efficient service provider. With purchasing agencies, EOHHS will engage in a structured, periodic review of the adequacy of rates to ensure that reasonably efficient providers have the continued capacity to achieve quality outcomes.

Secretariat responsibilities will include:

- Coordination and direction of the POS reform effort;
- Identification of classes of services appropriate for standard pricing methodologies;
- Review and technical decision making regarding the development of standardized pricing models;
- Development of standard taxonomy for services;
- Provision of technical assistance to EOHHS client service agencies;
- Establishment of annual priorities for procurement coordination.

EOHHS purchasing agencies will collaborate with EOHHS to develop pricing methodologies. In addition, they will maintain their responsibilities for contract management and client service delivery, including:

- Client assessment and program referral or placement;
- Development and administration of program service models;
- Development of appropriate and measurable program service outcomes;
- Evaluation of the efficacy of program service models;
- Evaluation of provider/program performance;
- Selection and management of providers;
- Administration of provider contracting system, within EOHHS and regulatory framework;
- Agency financial management and budget requirements.

2. A Fair Wage for Human Service Workers

EOHHS analysis suggests that staff salaries are a principle driver of overall provider costs. As such, a rate setting methodology needs to be built on the foundation of an acceptable fair wage. This document includes a budget analysis for the establishment of an EOHHS reserve to increase the wages of workers in the human service sector to a fair wage set as a percentage of the Federal Poverty Level (FPL) for a family of three. The analysis lists investment amounts ranging from 135% to 180% of FPL.

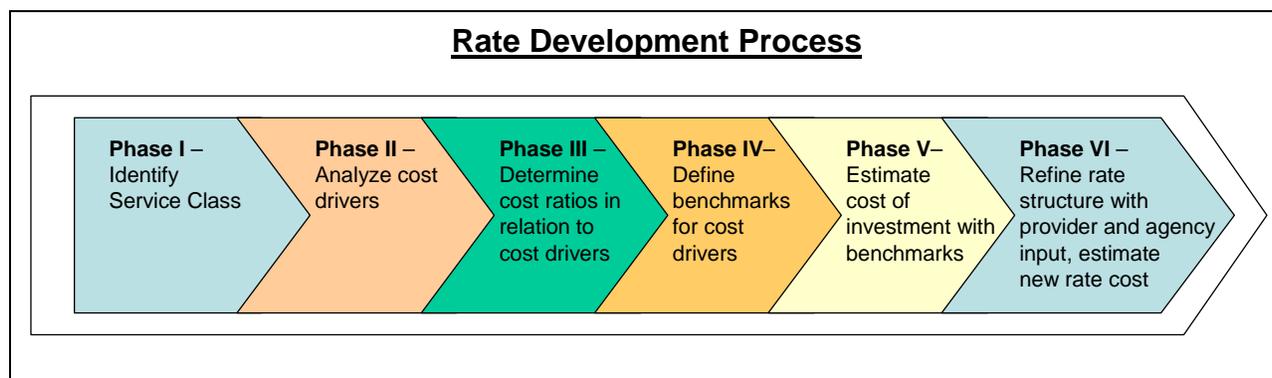
3. Rate Setting & Review Methodology

The rate setting methodology for each class must address four basic challenges in order to adequately support the cost of service delivery.

- Pricing should be based on reasonable costs of achieving the targeted outcome rather than historical costs.
- Costs will include ensuring for adequate wages for human service workers.
- Prices must reflect the diversity of clients served and the variation in costs for service delivery.
- Benchmark payments must be able to sustain infrastructure costs as providers transition to the new system.

After the identification of Service Classes, the rate development methodology will utilize available Uniform Financial Report data and other sources to understand cost structures and identify cost drivers within a service class. This source of historical expense data reflects the allocation of limited resources within constrained budget environments. EOHHS will not rely on the data for absolute cost data, but rather for the ratios of costs relative to identified cost drivers. EOHHS will determine appropriate benchmarks for cost drivers through a collaborative process of collecting information from purchasing agencies and provider representatives.

Analysis of cost data for workforce development programs indicates that direct care FTE levels and wages are the primary cost drivers for this service class. Assuring that rates incorporate the fair wage for direct care workers is an important principle of the rate reform strategy. The methodology will calculate rates based on a minimum of the fair wage level for direct care staff and support an adequate number of FTE's for a reasonably efficient provider to achieve the target outcome. Since the rate setting analysis will calculate the ratio of other costs relative to direct care salaries and to any other cost drivers, setting the benchmark salary level at a fair wage will in turn ensure that the rates also cover the costs of other non-wage categories that have significantly outpaced Commonwealth spending.



The rate setting methodology will provide a consistent and transparent method of applying rates that reflect the diversity of costs that exist within a service class. The

methodology will allow for variation in rates based on client need and service intensity, as well as any significant cost differentiation identified by geographic location.

A standard mechanism for rate review will ensure a review of rates for adequacy at a minimum of once every three years. Rate review will not incorporate a standard inflation adjustment factor, but will include a comprehensive re-assessment of the cost of achieving desired outcome and quality benchmarks, taking into account inflation and changes in relevant commodity prices (utilities, insurance, food, etc) since the initial rate determination.

4. Secretariat-Wide Service Classes

Service coding and classification is at the heart of efforts to manage POS utilization, investment, and outcomes. EOHHS efforts to establish a system of class rates depends on improved service coding. Re-newed efforts are needed to develop, maintain, and enforce common service coding practices. A standard way of identifying “like” services will enable cross-Secretariat analysis of costs, outcomes, and utilization. Services will be priced according to their “class”.

A “Service Class” consists of services where there is a similar outcome or quality goal and similar drivers of cost. Standardizing pricing and procurement within Service Classes will increase transparency and reduce administrative burden for both providers and purchasing agencies.

EOHHS will design standard procurement and pricing strategies for each identifiable Service Class. Pricing strategies will take into account the diversity in client need and service intensity within a Service Class. Where possible and appropriate, the POS Policy Office will facilitate joint procurement, purchasing services on a uniform schedule across the Secretariat and employing Secretariat-wide contracting mechanisms. Services purchased as part of a class will be identified for accounting and reporting purposes by coordinated MMARS Activity Codes.

5. Ensure Quality Outcomes

POS programs that are included in a Secretariat-wide Service Class will share quality and/or outcome benchmarks. Actual outcome goals may vary by client group. For example, programs within the Workforce Development Service Class would all have a benchmark measuring the number of months clients retain a job. However, the goal for the average number of months of job retention for clients in a DMH workforce development program may differ from the target for clients of a DTA workforce development program, depending on the appropriate goals for the two client populations. For some Service Classes, a specific quality “outcome” may not be feasible or meaningful—for example, many Long Term Community Based Residential programs have the primary goal of keeping clients safe, healthy, and in a community based setting at the least restrictive level of care possible. In a case like this, the

Service Class would have common quality measures relating to, for example, the adequate provision of basic needs versus a specific outcome.

EOHHS will develop performance-oriented payment structures for some Service Classes, where appropriate. In these cases, EOHHS recognizes that a period of transition will be necessary in order for programs and employees to adjust to the shift in culture and administrative procedures. The Workforce Development Service Class is an example of a class for which a performance-oriented payment structure works well. This group of programs share common service components that:

- Assess a client’s abilities and goals;
- Prepare the client for employment;
- Assist the client in obtaining a job;
- Stabilize the client in the job through appropriate supports;
- Assist the client to maintain the job through appropriate supports;
- Help the client to advance in their position as part of their service plan and goals.

Within this Class, payments will align with the clients’ initiation and completion of each service component. This system will reward providers as clients receive services that enable them to achieve their ultimate goal of a sustainable job placement to assist them in gaining independence and self-sufficiency. The automatic link between billing, payments and quality outcomes will enable agencies and EOHHS to track performance from individual programs to the system as a whole.

Even under a performance-oriented payment structure, EOHHS will ensure that providers have adequate cash flow to maintain operations. Providers will not only receive rate payments over the course of a client’s enrollment in the program, but also at least twice for each component of the program—at the client’s initiation and completion of the component.

In cases where there is a broad range of client need which is also associated with costs, the rate methodology may separate clients out into “tiers” of need. Higher reimbursement for service provision to more complex clients will give organizations the incentive to select “harder to serve” clients and prevent “creaming.”

ESTIMATED BUDGET IMPACT AND REFORM SCENARIOS

There are a number of administrative reforms – some of which require minimal new investment – that that will address the challenges discussed above. These include:

- Developing guidelines to limit the use of cost reimbursement contracts;
- Establishing a standard program classification system that enables EOHHS to identify similar programs purchased across the Secretariat;
- Eliminating duplicative reporting requirements for providers;

- Ongoing development and roll-out of the Enterprise Invoice / Service Management system, which transfers currently paper-based and manual POS billing to an online technology system;
- Developing new POS contracting mechanisms that include rewards for achievement of quality and outcome benchmarks.

Addressing the challenges associated with substandard wage rates paid to human service workers and the general imbalance between POS reimbursement rates and actual costs incurred by providers for commodity goods requires a significant investment. This investment would rectify the impact of multiple years of level funded contracts and allow the Commonwealth to continue to purchase the current volume of POS programs and services.

To minimize budget impact in any single year, reform can be staged in segments. Investment need falls into two general categories: fair wage investments and rate reform. Fair wage investment addresses the current gap between wages paid to workers in the POS sector and wages paid to workers for comparable jobs in the health care or special education systems. Rate Reform will occur incrementally by service class, and will involve restructuring of rates by class. This restructuring will center on the development of a transparent and consistent rate determination methodology that is based on a review of reasonable costs incurred by efficient and economical providers and periodic review of reimbursement rates for adequacy.

By implementing reform in segments and restructuring rates by service class, EOHHS will avoid a situation in which all reimbursement rates in the entire \$2.6B POS system are up for periodic review in a single year. Periodic review for the system will occur in segments. EOHHS estimates that, after an initial investment, the rate of cost increase in the \$2.6B system will decrease over time, as rates are re-structured and moved to systematic review. After three years, EOHHS estimates that the cost of rate increases will equal approximately the same amount invested in annual Salary Reserve increase, an average of \$23M over the last four years.

Fair Wage Investment Scenarios

The proposed fair wage investment differs from the traditional Salary Reserve in that it addresses the wage gap for the very lowest-paid workers, and all workers would not receive an equivalent wage increase. Currently, approximately 40% of workers in the POS system earn less than 150% FPL. Approximately 50% of workers earn less than 165% FPL. A fair wage investment can occur in stages over several years.

Minimum Wage Level:	Investment Requirement: [08 dollars]	FFP Reimbursement Estimate	Investment Requirement, Net FFP Reimbursement	Number of FTEs Impacted:
135% FPL for a family of 3	\$23,988,000	\$3,695,000	\$20,293,000	22,000
150% FPL for a family of 3	\$56,947,000	\$11,016,000	\$45,931,000	34,000
165% FPL for a family of 3	\$102,565,000	\$22,923,000	\$79,642,000	43,000
180% FPL for a family of 3	\$156,223,000	\$29,733,000	\$126,490,000	61,000

Since many positions are filled by several part time workers, this fair wage investment will improve the life situation of an even greater number of individuals and their families than the number of estimated “full-time equivalent” workers.

Rate Reform Investment Scenarios

As discussed above, rate reform will be conducted by service class, in which similar services purchased across the Secretariat will be grouped together. POS programs that have similar cost drivers, intended client outcomes, and general client populations will be grouped together into classes. Rate methodologies will be developed to accommodate services by class. Rate methodologies for the limited number of POS programs that are purchased uniquely by agencies will be developed separately.

EOHHS is prepared to implement rate reform for a service class consisting of workforce development services as early as FY09. Efforts to implement rate reform for other service classes can begin as early as FY10. To date, three service classes have been identified by EOHHS. Efforts to group remaining POS programs into service classes will be ongoing in FY09. Estimated budget impact for rate reform for the three currently-identified service classes is shown in the table below.

Service Class	Total Base Spending (FY07)	Rate Reform Budget Impact in Year 1	FFP Reimbursement	Rate Reform Impact, Net FFP Reimbursement
Workforce Development	\$60,271,000	\$6,331,000	\$886,000	\$5,445,000
Long Term Adult Residential	\$728,141,000	\$39,068,000	\$15,627,000	\$23,441,000
Independent Living	\$100,000,000	\$18,000,000	\$3,600,000	\$14,400,000
Remaining Service Classes	\$1,611,588,000	\$80,000,000	\$16,000,000	\$64,000,000

*Note: Figures for Independent Living Service Class and Remaining Service Classes are rough estimates

**Note: Out Year estimates incorporate a sample Fair Wage equal to 165% FPL.

The numbers shown in the table above will vary depending on whether – and how – the Commonwealth chooses to implement a fair wage investment. The figures quoted above assume that the wage gap for workers employed in these service classes has been closed by a system wide fair wage investment. Rate reform can occur

independently of a system wide fair wage investment. However this would create temporary wage inequities within the POS system, as some workers would be paid significantly more than others simply because rate reform had occurred for the class of service in which they work. Investment requirements for rate reform without a separate system wide fair wage increase are provided in the appendix. Due to the resultant wage inequity issues and the current urgency for adequate wages for workers, EOHHS does not recommend this approach.

Some EOHHS agencies are able to receive Federal Financial Participation (FFP) reimbursement for services that assist in the enrollment of individuals eligible for Medicaid and/or ensure that the needs of eligible Medicaid recipients are met. Agencies file claims for FFP after they receive POS payments; once FFP reimbursement is received, the revenue goes to the Commonwealth. The FFP reimbursement estimates in the chart above are conservative. They are based on claims for DMR Medicaid Home and Community Based Waiver and DMH Medicaid Rehabilitation Option services.

Review for Adequacy

Once rate reform is conducted for a class of services, all POS service contracts in the class will adhere to a standard schedule on which EOHHS will review rates for adequacy. At a minimum, rates will be reviewed once every three years. EOHHS will approve and manage the rate review schedule in a manner that staggers review timelines so that in no single year will it review more than a third of the entire POS system.

The proposed process for rate review will not only take into account the need for increasing salaries of direct care workers in order to maintain the desired fair wage level, but also assess providers' increasing commodity costs. The rate review process will prioritize available funds to address the overall cost of providing services that achieve the targeted outcome or quality measures, rather than just the cost of direct care staff.

CONCLUSION

The recommendations and strategy for implementation described in this report address the instability of the human service provider sector documented in the Provider Financial Health Report and reinforced by provider testimonies in the POS reform listening sessions. This proposal supports the principles of POS reform set forth by EOHHS to support community based services with transparent and equitable rates that provide a fair wage for workers and drive quality and accountability in service delivery. The investment proposed in this report is necessary to achieve these goals and ensure continuity and stability in the human service provider sector. The relationship between POS providers and the Commonwealth enables families and individuals to receive necessary services in community-based settings that support independence and self-sufficiency.

Appendix: Investment Requirements for Rate Reform without a System-Wide Fair Wage Increase

Service Class	Total Base Spending (FY07)	Rate Reform Budget Impact in Year 1	FFP Reimbursement	Rate Reform Impact, Net FFP Reimbursement
Workforce Development	\$60,271,000	\$10,173,000	\$1,424,000	\$8,749,000
Long Term Adult Residential	\$728,141,000	\$90,149,000	\$36,060,000	\$54,089,000
Independent Living	\$100,000,000	\$23,000,000	\$4,600,000	\$19,400,000
Remaining Service Classes	\$1,611,588,000	\$122,642,000	\$16,000,000	\$106,642,000

**Note: Estimates incorporate a sample Fair Wage amount equal to 165% FPL.