



# **Disability Waiver Rate System Impact Study**

Semi-Annual Report

Oct. 31, 2017

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## Study objective

The Disability Waiver Rate System (DWRS) transformed disability waiver service rates from a provider/lead agency-negotiated rate system to a statewide data-based rate methodology. As required by state law, DHS began to use the system in 2014 and phased it in through a mechanism called “banding.” DHS will fully implement the new system in calendar year 2020 or 2021. This report summarizes the projected fiscal impact of the DWRS to service rates when full implementation occurs, after the banding period.

This report was prepared in accordance with Minnesota Statutes 2017, section 256B.4914, subdivision 10, paragraph c. Statute requires the commissioner of human services to analyze the average difference between the historic rates in effect before system implementation (Dec. 31, 2013) and the framework rates in effect after full system implementation. DHS is required to issue semiannual reports on the difference in rates by service and by county during the banding period.

This analysis considers all changes to DWRS authorized by the Minnesota Legislature through the 2017 legislative session.

## Summary of findings

The total projected impact of DWRS on service rates across all services is a 22.8 percent increase. This impact occurs over several years. Measuring this impact from 2013 through 2021, this increase amounts to approximately 2.85 percent per year. The full impact of DWRS will occur after the banding period ends in calendar year 2020 or 2021.

In this report, DHS combined services in larger groupings called buckets. DHS projects an increase in all service buckets. All lead agencies also project an increase. This report will detail the projected impact by service category and lead agency.

The findings in this semi-annual report have changed significantly from previous reports because of the following changes to DWRS:

- The Legislature made changes to DWRS frameworks in the 2017 session. The Legislature based most of these changes on updated research on the cost of providing services across the state.
- The Legislature authorized automatic inflationary adjustments to DWRS every five years. DHS made the first adjustment in July 2017.
- The Legislature did not clarify the interaction between automatic inflationary adjustments and previous cost-of-living adjustments. As a result, DHS made both the automatic inflationary adjustments and the cost-of-living adjustments in DWRS. Those changes resulted in a change in assumptions in this analysis.

For more information on changes to DWRS, see the [DWRS framework changes](#) section of this report.

## Background

DHS began to use DWRS as required by the federal Centers for Medicare & Medicaid Services (CMS) to maintain the state's eligibility for federal funding of the disability waivers. Before DWRS, providers and lead agencies negotiated rates. Many times rates varied across the state and were not based on people's needs. The federal government required the implementation of a data-based statewide rate methodology.

Approved by the Minnesota legislature in 2013, DWRS established rate formulas (frameworks) based on statewide average costs to provide home and community-based services (HCBS) in Minnesota. This rate methodology is laid out in [Minnesota Statutes 2017, section 256B.4914](#).

In state fiscal year 2016, services with rates calculated through DWRS accounted for about \$1.8 billion for more than 32,000 people using services across the state. This is about 80 percent of total spending under the disability waivers.

The legislature requires full implementation of framework rates produced by the system after the [statutorily required banding period](#) in 2020 or 2021. In the banding period, rate changes are limited for people who received services in 2013 and providers that provided services in 2013. The legislature required banding to ensure ongoing service access for people and to limit impacts on service providers and county and state budgets during DWRS implementation. This implementation enabled the state to continue research on provider costs and enabled businesses to prepare for full implementation of the system.

The Minnesota Legislature approved a seventh year of banding (through calendar year 2020) during the 2017 session. DHS is seeking federal approval to implement the seventh year of banding. About 27 percent of total DWRS service dollars are not subject to banding and have framework rates authorized.

In this report, DHS estimates the projected impact of DWRS. We made these estimates by examining the difference between pre-DWRS negotiated rates ("historic rates") and rates produced by DWRS ("framework rates"). This projected impact will occur when DWRS is fully implemented after the banding period in 2020 or 2021.

## Study methodology

This study measures the projected fiscal impact of DWRS by calculating the percentage difference between the average rate per unit in 2013 ("historic rate") and the rate calculated by the DWRS ("framework rate").

This study examines all service agreement lines between July 1, 2016, and June 30, 2017, that meet the below specifications. Data in this study encompass 15,865 recipients and 1,531 unique provider IDs.

## Specifications

This study has the following specifications:

**Ongoing recipients:** This study measures the impact of DWRS by looking only at recipients receiving the same services by the same provider in both time periods. It does not include new recipients, new services or changes in service providers. To be included in the study, each service agreement line must have a historical rate established by the individual's approved service authorization on Dec. 31, 2013.

**DWRS usage:** This study only includes service agreement lines in which DWRS was used to calculate a rate entered into MMIS. MMIS data are merged with DWRS data and all lines that do not have a match between the two databases are excluded from this study.

**Holding units constant:** To isolate the impact of the service rate itself, DHS held the number of units authorized for each service authorization constant in both time periods.

**Inflationary increases:** This study includes both the cost-of-living increases authorized by the 2013 and 2014 Legislature and the automatic inflationary increases implemented in DWRS in July 2017. These increases apply to framework rates. Historic rates do not include these increases. For details on these changes, see the [DWRS framework changes](#) section of this document.

**Legislated component value changes:** This study includes all component value changes approved by the Minnesota Legislature in the 2017 session. In this analysis, DHS applied the projected impact of these changes to framework rates. Historic rates do not include these increases. For detail on changes made to the system, see the [DWRS framework changes](#) section of this document.

**Rate exceptions:** This study includes all ongoing recipients who have received the same service in both time periods, regardless of whether they will receive a rate exception when banding protections are not applicable. The findings in this analysis do not consider the additional cost of rate exceptions. For detail on the impact of rate exceptions, see the [DWRS rate exceptions](#) section of this document.

## Limitations

This report is a point-in-time analysis. Projections may vary over time as changes occur in the system. Examples of these changes include:

- Changes in the inputs users enter into the Disability Waiver Rate System
- Changes in the eligibility for and cost of rate exceptions
- Changes to component values approved by the Minnesota Legislature

This report does not consider future, unknown changes to these factors.

The DWRS implementation period happens over a five- or six-year period. Within this period, there will be changes that can occur outside of DWRS, regardless of rate methodologies. Examples include:

- Changes in a person's choice of services and/or providers
- Changes in the amount of service a person needs
- New recipients

- Changes in the services available to disability waiver recipients

This report does not consider these other factors.

Because service-purchasing changes are not projected, this report does not cite the final impact on paid claims. Likewise, this analysis does not measure the impact to provider revenues or lead agency budgets. This analysis measures the difference in the actual rates. It compares the rates authorized under historical negotiated rate-setting methods to the projected rates calculated by the statewide DWRS.

## DWRS framework changes

State law bases DWRS rate formulas on the statewide average costs required to provide home and community-based services in Minnesota. Detailed in state statute, rate formulas are composed of cost components. Cost components vary by service and include factors such as staff wages, employee benefits, employer-paid taxes, paid time off, indirect staff time, program expenses and administrative expenses.

The analysis in this report includes updates to DWRS as required by the Minnesota Legislature. Some of these updates are scheduled to occur in the future, but before the end of the banding period. These changes include the following:

**Table 1: DWRS framework changes**

Change driver	Change description
<b>Changes required by the federal Centers for Medicare &amp; Medicaid Services (CMS)</b>	The 2017 Legislature authorized the removal of after-model "budget neutrality" adjustments, as required by CMS. Removal of these factors results in rate frameworks that compensate service providers at the average amount that it costs to provide the service.
<b>Changes reflecting BLS/CPI inflationary increases</b>	The 2013 and 2017 Legislatures authorized DHS to update cost components within DWRS to account for inflation. These updates reflect changes in wage data (via Bureau of Labor Statistics) and the Consumer Price Index over the period of DWRS implementation. This analysis includes the 2017 update, but does not include subsequent updates, such as the next scheduled update in 2022.
<b>Changes reflecting updated research on provider costs</b>	The 2017 Legislature authorized updating cost components within DWRS to align them with updated research on the average cost required of providers to provide services. This updated research was conducted by an independent research firm, Truven Health Analytics, and can be found in the <a href="#">2017 DWRS Legislative Report (PDF)</a> .

Change driver	Change description
<b>Wage code changes</b>	<p>The 2017 Legislature authorized changes to particular wage components within DWRS to reflect different Bureau of Labor Statistics wage codes.</p> <p>The Legislature also authorized alignment of asleep staff wages with state minimum wage requirements in Minnesota.</p>
<b>Other changes</b>	<p>The 2013 and 2014 Legislatures authorized after-model cost-of-living adjustments to be applied to HCBS rates. DHS applied these factors in addition to the BLS and CPI inflationary increases in the same time period.</p> <p>The 2017 Legislature authorized DHS to update the absence factor in day services. The Legislature also required DHS to summarize updated research on this cost value and submit recommendations to the Legislature in January 2018. DHS published these findings in a separate report, <a href="#">Disability Waiver Rate System Absence Factor in Day Services Study (PDF)</a>.</p> <p>The 2017 Legislature also authorized changing the rate components used in the customized living tool.</p>

## DWRS rate exceptions

DHS developed DWRS after a complex review of the costs of providing disability waiver services. While DHS designed the DWRS frameworks to cover the cost of serving most recipients, some recipients with exceptionally high needs will require a lead agency- and DHS-approved rate exception. Rate exception eligibility and processes are outlined in [Minnesota Statutes 2017, section 256B.4914, subdivision 14](#).

Because of banding protections, rate exceptions are limited during the banding period. When the banding period concludes, rate exceptions will result in additional spending. Exceptions will increase the final fiscal impact of DWRS upon expiration of banding protections in 2019 or 2020.

## Statewide findings

The total projected statewide impact of the DWRS across all services is a 22.8 percent increase in the average rate per unit for DWRS services. Below is a breakdown of system changes that contributed to this projection.

**Table 2: Statewide findings**

<b>Breakdown of projected change</b>	<b>Percent change</b>
Percent change from historic rates to framework rates, before inflationary and component value updates	1.5 %
Additional percentage as a result of 7/1/2017 BLS/CPI inflationary adjustments and post-2017 legislative session component value changes	14.3 %
<b>Total projected change before after-model adjustments</b>	<b>15.8 %</b>
Additional percentage as a result of after-model cost-of-living inflationary adjustments	7.0 %
<b>Total projected change from historic 2013 rates to DWRS framework rates</b>	<b>22.8 %</b>

Measuring this impact from 2013 through 2021, this increase amounts to about 2.85 percent per year.

These findings are the projected impact of DWRS implementation when banding is no longer applicable, in 2020 or 2021. These findings do not include the additional cost of rate exceptions. Rate exceptions will increase the final impact of DWRS.

## Findings by service category

The following findings summarize the projected impact of DWRS implementation on a service category level. This analysis does not include the projected impact of exceptions. Rate exceptions will increase the fiscal impact of DWRS implementation. These findings illustrate the projected impact of DWRS when banding is no longer applicable, in 2020 or 2021.

### Day services

DHS projects day services to increase by 13.5 percent. Day services currently account for 13 percent of total DWRS spending. The table below illustrates the projected impact by service category.

**Table 3: Day service findings**

<b>Service category</b>	<b>Number of recipients in FY2016</b>	<b>Percent of total DWRS service recipients</b>	<b>Percent of total DWRS spending in FY2016</b>	<b>Projected change in service rates post-banding</b>
Adult day services	2,139	7%	1%	<b>44.1 %</b>
Day training and habilitation	10,337	33%	11%	<b>11.4 %</b>
Prevocational services	2,874	9%	1%	<b>6.8 %</b>
<b>Day bucket (total)</b>	<b>15,125</b>	<b>48%</b>	<b>13%</b>	<b>13.5 %</b>

The analysis in this study does not consider changes in service utilization. DHS expects the implementation of new employment services to result in some people accessing unit-based employment services in addition to or in place of day bucket services.



## Residential services

DHS projects residential services to increase by 21.7 percent. In fiscal year 2016, residential services accounted for 75 percent of total DWRS spending (approximately \$1.3 billion). The table below illustrates the projected impact by service category.

**Table 4: Residential service findings**

Service category	Number of recipients in FY2016	Percent of total DWRS service recipients	Percent of total DWRS spending in FY2016	Projected change in service rates post-banding
Customized living services	3,583	11%	7%	<b>14.2 %</b>
Foster care services	5,645	18%	24%	<b>21.2 %</b>
Residential care services <sup>1</sup>	217	1%	0%	<b>-20.0 %</b>
Supportive living services, daily	9,719	31%	44%	<b>23.5 %</b>
<b>Residential bucket (total)</b>	<b>18,916</b>	<b>60%</b>	<b>75%</b>	<b>21.7 %</b>

This analysis does not consider rate exceptions. In addition to the findings in the table above, we estimate that rate exceptions in this service area will have particularly high costs compared to other services. Analysis from the 2015 exceptions research study concluded that residential services is a primary service area of projected exceptions. Rate exceptions for these services may account for up to an additional 1.73 percent of total residential service spending. Because we conducted this study before component updates after the 2017 legislative session, the projection of the impact of DWRS will change when more statewide data is available to identify the specific people who will require rate exceptions.

## Unit-based without programming services

We project unit-based services without programming services to increase by 64.6 percent. This service bucket accounts for 4 percent of total DWRS spending (approximately \$73 million).

DHS based the DWRS frameworks on average business costs required of providers in Minnesota to deliver services. Updated research conducted in 2016 further identified these values for unit-based services. The implementation of DWRS over negotiated historic rate-setting and the subsequent component adjustments and budget neutrality factor removals authorized by the 2017 Legislature help to align service rates with research findings.

The table below illustrates the projected impact by service category.

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<sup>1</sup> DHS will discontinue residential care services effective June 30, 2018 (see [DHS website](#) for more information). Recipients will transition to other available services. Residential care is included in this analysis until it is no longer an applicable service.

**Table 5: Findings for unit-based services without programming**

Service category	Number of recipients in FY2016	Percent of total DWRS service recipients	Percent of total DWRS spending in FY2016	Projected change in service rates post-banding
Personal support/companion	1,913	6%	3%	72.2 %
Respite care services <sup>2</sup>	2,870	9%	1%	49.5 %
<b>Unit without programming bucket (total)</b>	<b>3,670</b>	<b>12%</b>	<b>4%</b>	<b>64.6 %</b>

### Unit-based with programming services

DHS projects unit-based services with programming to increase by 27.2 percent. This service bucket accounts for 7 percent of total DWRS spending (approximately \$131 million).

As with the unit-based without programming services, updated research conducted in 2016 further identified the component cost values for unit-based services in this service bucket. The component adjustments and budget neutrality factor removals authorized by the 2017 Legislature help to align service rates with research findings.

The table below illustrates the projected impact by service category.

**Table 6: Findings for unit-based services with programming**

Service category	Number of recipients in FY2016	Percent of total DWRS service recipients	Percent of total DWRS spending in FY2016	Projected change in service rates post-banding
<b>Behavioral support services</b>	1,043	3%	0.3%	52.7 %
<b>Independent living services</b>	7,000	22%	3%	1.7 %
<b>In home family support</b>	2,428	8%	2%	38.1 %
<b>Supported employment</b>	2,660	8%	1%	69.4 %
<b>Supportive living services, 15min</b>	1,375	4%	1%	35.3 %
<b>Unit with program bucket (total)</b>	<b>12,972</b>	<b>41%</b>	<b>7%</b>	<b>27.2 %</b>

<sup>2</sup> The 2017 Minnesota Legislature approved the move of daily respite care services from a DWRS-set rate to a market-rate service. DHS will complete this change upon approval from CMS. Until approval takes place, daily respite will continue to have rates set by DWRS, and thus is included in this analysis.

## Findings by lead agency

The following findings summarize the impact projected for lead agencies on an aggregate level. We calculated the change by considering, for each lead agency, all service authorizations across all service lines for recipients that had both December 2013 authorizations and current authorizations.

This analysis found that the average projected change by lead agency CFRs is an increase of 27 percent; the median change is an increase of 26 percent.

These estimates **do not** reflect changes to lead agency budgets or projected spending, as they do not include changes in services, population changes and rate exceptions. These estimates reflect only the projected percentage change in rates for people living in the particular county of residence or authorized for services by the particular county of financial responsibility.

DHS is conducting ongoing statistical analysis of the impact of DWRS on lead agencies, including the projected change in rates and the percentage of dollars subject to banding. We are using the findings to update lead agency budgets to account for DWRS implementation and legislated rate changes.

Below are two tables showing each lead agency's current projected change, both as the county of financial responsibility (CFR) and as the county of residence (COR). These values are the projected impact when banding is no longer applicable, in 2020 or 2021.

**Table 7: Lead agency findings according to county of financial responsibility (CFR)**

Lead agency (CFR)	Number of recipients in FY16	Percent of the statewide total recipients	Projected percent change to rates (aggregate)
Aitkin	99	0.3%	17%
Anoka	1,664	5.3%	13%
Becker	195	0.6%	34%
Beltrami	248	0.8%	28%
Benton	246	0.8%	10%
Big Stone	57	0.2%	38%
Blue Earth	354	1.1%	22%
Brown	188	0.6%	24%
Carlton	280	0.9%	27%
Carver	346	1.1%	17%
Cass	165	0.5%	17%
Chippewa	95	0.3%	33%
Chisago	272	0.9%	38%
Clay	497	1.6%	34%
Clearwater	32	0.1%	49%
Cook	15	0.0%	10%

Lead agency (CFR)	Number of recipients in FY16	Percent of the statewide total recipients	Projected percent change to rates (aggregate)
Cottonwood	88	0.3%	32%
Crow Wing	292	0.9%	30%
Dakota	2,321	7.3%	20%
Dodge	33	0.1%	28%
Douglas	200	0.6%	24%
Faribault	115	0.4%	33%
Fillmore	123	0.4%	53%
Freeborn	158	0.5%	16%
Goodhue	285	0.9%	9%
Grant	40	0.1%	64%
Hennepin	7,386	23.3%	14%
Houston	125	0.4%	32%
Hubbard	93	0.3%	21%
Isanti	157	0.5%	26%
Itasca	270	0.9%	47%
Jackson	71	0.2%	22%
Kanabec	90	0.3%	37%
Kandiyohi	333	1.1%	33%
Kittson	38	0.1%	30%
Koochiching	95	0.3%	23%
Lac Qui Parle	68	0.2%	27%
Lake	80	0.3%	52%
Lake of the Woods	32	0.1%	13%
Le Sueur	188	0.6%	0%
Lincoln	44	0.1%	37%
Lyon	191	0.6%	23%
McLeod	36	0.1%	33%
Mahnomen	80	0.3%	96%
Marshall	150	0.5%	31%
Martin	187	0.6%	27%
Meeker	149	0.5%	34%
Mille Lacs	184	0.6%	31%
Morrison	180	0.6%	35%
Mower	284	0.9%	22%
Murray	51	0.2%	25%
Nicollet	146	0.5%	20%
Nobles	127	0.4%	41%
Norman	55	0.2%	16%

<b>Lead agency (CFR)</b>	<b>Number of recipients in FY16</b>	<b>Percent of the statewide total recipients</b>	<b>Projected percent change to rates (aggregate)</b>
Olmsted	787	2.5%	21%
Otter Tail	368	1.2%	26%
Pennington	87	0.3%	24%
Pine	139	0.4%	29%
Pipestone	57	0.2%	20%
Polk	257	0.8%	31%
Pope	74	0.2%	33%
Ramsey	4,077	12.9%	14%
Red Lake	19	0.1%	25%
Redwood	111	0.4%	26%
Renville	118	0.4%	23%
Rice	389	1.2%	30%
Rock	73	0.2%	25%
Roseau	67	0.2%	110%
St. Louis	362	1.1%	32%
Scott	321	1.0%	10%
Sherburne	83	0.3%	30%
Sibley	1,479	4.7%	7%
Stearns	671	2.1%	19%
Steele	408	1.3%	25%
Stevens	61	0.2%	19%
Swift	88	0.3%	9%
Todd	171	0.5%	27%
Traverse	20	0.1%	22%
Wabasha	150	0.5%	25%
Wadena	116	0.4%	14%
Waseca	36	0.1%	
Washington	871	2.7%	22%
Watsonwan	77	0.2%	16%
Wilkin	66	0.2%	19%
Winona	475	1.5%	26%
Wright	497	1.6%	28%
Yellow Medicine	90	0.3%	27%
White Earth Tribe	27	0.1%	9%

Table 8: Lead agency findings according to county of residence (COR)

Lead agency (COR)	Number of recipients in FY16	Percent of the statewide total recipients	Projected percent change to rates (aggregate)
Aitkin	104	0.3%	29%
Anoka	1,602	5.1%	13%
Becker	206	0.7%	32%
Beltrami	285	0.9%	34%
Benton	323	1.0%	12%
Big Stone	44	0.1%	50%
Blue Earth	590	1.9%	15%
Brown	186	0.6%	24%
Carlton	274	0.9%	17%
Carver	317	1.0%	15%
Cass	231	0.7%	11%
Chippewa	106	0.3%	25%
Chisago	389	1.2%	23%
Clay	554	1.7%	35%
Clearwater	31	0.1%	80%
Cook	< 10	< 0.1%	7%
Cottonwood	73	0.2%	42%
Crow Wing	360	1.1%	32%
Dakota	2,453	7.7%	18%
Dodge	92	0.3%	21%
Douglas	216	0.7%	28%
Faribault	54	0.2%	30%
Fillmore	86	0.3%	68%
Freeborn	123	0.4%	11%
Goodhue	265	0.8%	8%
Grant	46	0.1%	11%
Hennepin	6,958	22.0%	14%
Houston	131	0.4%	33%
Hubbard	101	0.3%	2%
Isanti	184	0.6%	21%
Itasca	250	0.8%	51%
Jackson	27	0.1%	16%
Kanabec	74	0.2%	28%
Kandiyohi	553	1.7%	32%
Kittson	17	0.1%	58%
Koochiching	69	0.2%	31%

Lead agency (COR)	Number of recipients in FY16	Percent of the statewide total recipients	Projected percent change to rates (aggregate)
Lac Qui Parle	36	0.1%	23%
Lake	46	0.1%	42%
Lake of the Woods	18	0.1%	3%
Le Sueur	164	0.5%	27%
Lincoln	22	0.1%	22%
Lyon	219	0.7%	23%
McLeod	30	0.1%	27%
Mahnomen	52	0.2%	49%
Marshall	178	0.6%	30%
Martin	173	0.5%	24%
Meeker	119	0.4%	39%
Mille Lacs	165	0.5%	32%
Morrison	192	0.6%	34%
Mower	276	0.9%	27%
Murray	31	0.1%	31%
Nicollet	224	0.7%	34%
Nobles	125	0.4%	38%
Norman	37	0.1%	49%
Olmsted	864	2.7%	21%
Otter Tail	387	1.2%	25%
Pennington	93	0.3%	60%
Pine	208	0.7%	23%
Pipestone	41	0.1%	19%
Polk	249	0.8%	28%
Pope	57	0.2%	34%
Ramsey	3,997	12.6%	15%
Red Lake	13	0.0%	46%
Redwood	102	0.3%	23%
Renville	96	0.3%	19%
Rice	444	1.4%	24%
Rock	72	0.2%	20%
Roseau	43	0.1%	114%
St. Louis	366	1.2%	29%
Scott	328	1.0%	9%
Sherburne	36	0.1%	33%
Sibley	2,038	6.4%	14%
Stearns	694	2.2%	23%
Steele	222	0.7%	16%
Stevens	80	0.3%	17%

<b>Lead agency (COR)</b>	<b>Number of recipients in FY16</b>	<b>Percent of the statewide total recipients</b>	<b>Projected percent change to rates (aggregate)</b>
Swift	67	0.2%	24%
Todd	145	0.5%	22%
Traverse	19	0.1%	25%
Wabasha	136	0.4%	33%
Wadena	112	0.4%	15%
Waseca	155	0.5%	22%
Washington	927	2.9%	19%
Watsonwan	47	0.1%	24%
Wilkin	44	0.1%	44%
Winona	432	1.4%	29%
Wright	572	1.8%	27%
Yellow Medicine	64	0.2%	31%