State of Connecticut
Department of Developmental Services

DDS

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Governor

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To: Private Provider Executive Directors

From: Joseph Drexler, Director, Operations Center

CC: Terrence Macy Ph.D., Commissioner, Regional Directors, CCPA, CT Non Profits, ARC/CT

Date: October 3, 2011

Subject: Transition to Need Based Rates

As you may know, the Department of Developmental Services (DDS) has been working on plans to transition to level of need (LON) based rates. This approach conforms to the expectations of the Center for Medicaid Services (CMS) to develop a fair and consistent funding mechanism for each DDS participant. After several years of work, a Legislative Rate Study Commission was established to review the information and make recommendations. Their report is available on line at: http://www.ct.gov/dds/lib/dds/operations_center/rate/lac_final_report.pdf.

The finding of the Commission was that "CMS has articulated its requirements to states in the regulations for the Homes and Community Based Waivers. Waiver regulation requires that states have a uniform rate setting methodology for service models; that states pay only for services actually delivered; and that states afford service recipients freedom of choice between service providers in order for the state to qualify for FFP (*Federal Financial Participation*). Connecticut's existing payment system does not meet any of these three criteria and places the state at risk of federal recoupment of FFP should the state undergo a CMS audit." This led the Commission to recommend that "A multi-year transition period will allow agencies to develop and implement strategies to deal with the rate differences depending on their historical funding. At the conclusion of the transition period, all services would be paid based on the uniform rates. The plan should consider provisions for financial hardship, utilization review, and other issues impacting implementation."

The report is an excellent resource in developing baseline knowledge of the history of this initiative and key factors involved. The report recommended the process commence in July of 2011 for Day Service and transition over 5 years. Residential would start the process in July, 2012 and also transition over 5 years.

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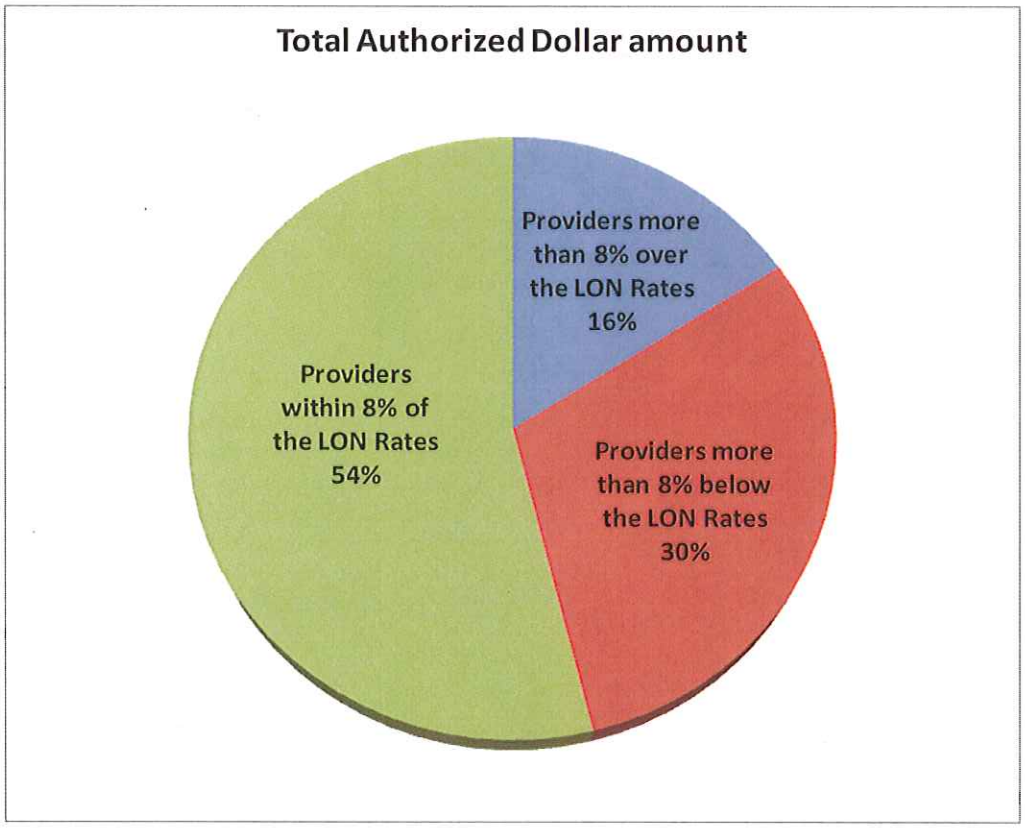
When Dr. Terry Macy became Commissioner, he delayed the start of the process for Day Services to January, 2012. In addition, he extended the transition from 5 to 7.5 years to provide more time for providers to adjust to the new system. He also asked a group consisting of provider representatives and DDS staff to formulate a plan and invited Deb Heinrich, Nonprofit Liaison to the Governor, to participate in the meetings. Her participation has enhanced the process and her first hand knowledge of the issues can only benefit DDS and the provider community as we move forward. The provider and DDS representatives have worked on a transition plan and have some of the key components settled. I am writing to share that information.

The transition will be a two step process. In January of 2012 the transition for Day Services will start for agencies that are farthest from the need based rates.

After a review of the total annualized legacy amount of all contract service authorizations and vendor service authorizations, DDS calculated that more than half of the authorized amount was with those providers that were within 8% of the LON rates. Using that as the benchmark, the committee determined that those agencies greater than 8% above or below the rates would require a longer transition period.



Transition Plan

Providers whose aggregate legacy funding is greater than 8% above or below the total of all Level of Need based rates will begin the process of incrementally adjusting their funding level towards the LON based rates. Providers whose aggregate legacy funding is within 8% of the total of all Level of Need based rates will begin the transition on July 2013. All providers will work with the primary region to develop a provider specific plan to move the agency from legacy funding to LON based rates.

This two pronged approach was settled on for several reasons:

- It allows DDS to work with the providers who are most affected first.

- It also provides an opportunity for continued dialogue and analysis regarding the issue of sustainable wage and benefit levels for employees and for those results to be shared in the next two year budget cycle. Any cost of living increase or other appropriation adjustment for existing services would of course make the transition easier.

Next Steps

Outreach and communication efforts will begin immediately. On October 4, Peter Mason will join the DDS Trades Business Managers Forum to discuss the components of the Transition Plan and request input on a potential standard budget format. Other existing forums will be used to keep the general provider community apprised. The next Executive Brief will be sent out during October and will contain information and updates on the process.

Agencies and their primary region will meet to develop a transition plan. Providers who are greater than 8% above or below the LON rates will be provided detailed participant information to review the calculations of the anticipated funding changes prior to the meeting with the region. The information will include current funding and LON information for people served and the transition amounts for each year. The region and provider will be able to customize the plan to meet the needs of the participants and the agency over the transition period. The plan should be a working document that will be updated on a yearly basis to account for changes to individual needs and the composition of participants within an agency.

There will be a statewide meeting for those providers on **November 3rd** to review the process and answer questions. Providers who should attend this meeting will be notified. Regional Forums and other meetings will be used for communication with other providers.

Effective January 1, 2012, the first adjustment will be made to the legacy funding of providers who are greater than 8% above or below the LON rates. The amount of the change will be one quarter of one percent of the total difference between the legacy funding and the annualized aggregate amount of all LON based authorizations. The adjustment will be made in accordance with the provider's transition plan. Beginning on July 1, 2012, the legacy funding will be adjusted by an equal percentage on a yearly basis. This will continue until such time that the provider has transitioned to the LON based rates but no later than June 30, 2019.

Effective July 1, 2013, the legacy funding of providers within 8% of the LON based rates will be adjusted by an equal percentage on a yearly basis. This will continue until such time that the provider has transitioned to the LON based rates but no later than June 30, 2019. Agencies and their primary region will meet to develop a transition plan. Providers will receive detailed participant information to review the calculations of the anticipated funding changes prior to the meeting with the region. The information will include current funding and LON information for people served and the transition amounts for each year. The region and provider will be able to customize the plan to meet the needs of the participants and the agency over the transition period.

Information will be developed regarding issues related to sustainability of the system and how wages and benefits relate to the cost of services and the hidden costs of wages below the certain economic thresholds. It is hoped that this information will inform the budget process for the next biennium.

DDS is committed to working with the provider community to make the transition to a system that is consistent with CMS requirements. I can think of no better way to conclude this letter than this quote from the Rate Study Commission, "The risks of a failure to act to ensure compliance will result in a loss of millions of dollars in federal reimbursement, increase costs to the state, and jeopardize services to people with disabilities, their families, and the provider network that supports them."