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## ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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Janet Napolitano  
Governor

**Division of Developmental Disabilities**

Telephone: (602) 542-0419 FAX: (602) 542-6870

John L. Clayton  
Director

January 21, 2003

Dear Provider:

I am writing you today to announce two major developments in the provision of services to the Division's consumers. First, the Qualified Vendor Procurement and Rate Setting Rule will become effective February 1, 2003. A copy of that rule is available on our home page at [www.de.state.az.us/ddd](http://www.de.state.az.us/ddd). Second, we are announcing the Division's published rate system for community developmental disabilities services. The rate schedule and other supporting materials (labeled as Attachment 1 through 6) are available at our web site at [www.de.state.az.us/ddd](http://www.de.state.az.us/ddd). The rate schedule will be finalized with the release of the Request for Qualified Vendor Applications in mid February.

It had been anticipated by the Division that this published rate system would result in an increase in provider rates. Unfortunately, that is not the case. Due to the state's current fiscal situation, it is necessary for the Division to adopt a rate schedule that is budget neutral. Budget neutrality has been defined for the purposes of the rate schedule adoption as a level of spending that approximates the level of spending that the Division would have incurred without the adoption of the rate schedule.

For this reason, the rate schedule labeled as Attachment 1 contains two columns of rates. The first column, "Benchmark Rate," contains the rates that the Division calculated through its rate setting process. The second column, "Adopted Rate," contains the rates that the Division will adopt for the published rate schedule (generally 93% of the Benchmark Rate). Our estimates indicate that at this rate level, the Division will be able to adopt a published rate schedule and have the subsequent expenditures be budget neutral.

The rate schedule will be phased-in over the next two fiscal years. The schedule labeled as Attachment 2 lists the rates that will be used during the first year of the phase-in, and are discussed in the attached document under "Implementation." The group home staff hourly rates converted to daily rates are included as Attachment 3.

The Background document enclosed with this letter provides some context of how the published rate system fits into both the Division's legal mandates and planned procurement reforms, how the

benchmark rates were determined, and how the adopted rates were determined. There is also a discussion of how the rate schedule will be phased-in over the next two fiscal years.

The Division is interested in receiving feedback now and after implementation. This feedback should be directed to Ed Rapoport, Business Operations Administrator, here at the Division.

As you review the attached published rate schedule, please be aware that:

- The Division is mandated by state law to move forward with a published rate system.
- The new procurement system embodied in the Qualified Vendor rules is built upon the published rate system.
- If the Division were to consider the upward adjustment of any particular rate for a particular service, because of the budget neutrality constraint, the Division would have to change the scaleback factor that is applied to all rates. Unfortunately, the Division is confronted with a “zero sum” situation.

The Division is committed to the ongoing examination of all rates for modification where implementation experience demonstrates that a given adopted or benchmark rate does not address a vital function. However, this will be done uniformly across a particular service and for all providers who are affected.

We recommend that you review the enclosed material and visit our web site for the attachments that contain the rate schedules and additional information on the methodology, assumptions, and models used to construct the rate schedule. The web site is located at [www.de.state.az.us/ddd](http://www.de.state.az.us/ddd).

If you are unable to access this information please call the Division’s Office of Business Operations at (602) 542-6874 and request that hard copies of the attachments be sent to you.

Sincerely,

Ric Zaharia, Ph.D.  
Assistant Director  
Division of Developmental Disabilities

**Division of Developmental Disabilities**  
**Published Rate System**  
**Background Information**

**The Published Rate System in Context**

A published rate system has been a long time goal of the Division, the provider community and the Legislature. The Division and the provider community have sought a published rate system in order to add equity and simplicity to the reimbursement system. The Legislature has had a high level of interest in seeing the system be adopted.

For some time, the statutes have contained a mandate to the Division to adopt a published rate system (see A.R.S. 36-557). This mandate caused the Division to undertake a rate setting process in the late 1990s that produced rates that were never adopted.

In 2001 the Legislature amended A.R.S. 36-557 and added 36-2959 to the statutes. The effect of these two changes were to:

- ❑ Allow the Division to be exempt from the provisions of the procurement code in order to allow for the streamlining of the procurement and contracting process for community service providers.
- ❑ Provide the Division direction as to how a published rate system would be determined and maintained.

During the 2002 Legislative session, the Legislature approved a provider rate increase and further legislated on the matter of the published rate system.

For the provider rate increase, the Legislature specified that the increase was to be awarded to providers that were receiving less than other providers providing similar services. This resulted in the establishment of “floor rates” for each service type and significantly reduced the number of rates that were paid by the Division to providers.

With respect to the published rate system, in 2002 the Legislature once again directed that the Division adopt a published rate system (see Laws 2002, 2<sup>nd</sup> Reg Sess, Ch 329, Sec 33). Further, the published rate system was to be phased-in, and fully implemented by the 2004/2005 fiscal year.

With these instructions from the Legislature, the Division initiated two major efforts. The Division began the process of designing a new procurement process for community service providers and undertook a rate setting effort.

The new procurement process is contained in the Qualified Vendor rules (often called the “557 rules”) that were the subject of two public hearings. The rules will become effective on February 1, 2003 and will provide a procurement process that is considerably simpler for both the provider community and the Division. This procurement process anticipates the existence of a published rate system.

In approaching the development of the published rate system, the Division followed the legislative instruction to use an independent consultant. The consultant's work began in 2001 and is discussed in more detail below.

The published rate system will accomplish the following:

- ❑ Satisfy the legislative mandate that the Division adopt a published rate system,
- ❑ Provide a critical element to the redesigned service procurement process that is contained in the new Qualified Vendor rules, and
- ❑ Provide equity and simplicity to the Division’s reimbursement system.

The following section discusses on a general level the approach used by the Division in developing the rates.

### **Development of the Benchmark Rates**

As directed by the Legislature, the Division retained an independent consultant to assist in the development of the rates. The consulting firm that was used, EP&P Consulting, Inc., has assisted both the AHCCCS Administration and the Division of Behavioral Health Services (BHS) in the development and updating of their community service provider rates.

The approach that primarily was used in the development of the rates was an independent rate model. In this approach, the various factors of costs to providers are identified and quantified, and a rate is produced.

The advantages of using this approach to rate setting include:

- ❑ The establishment of a structure to evaluate the cost that providers face,
- ❑ Assumptions are clearly delineated and can be verified in future modifications to the rates,
- ❑ The reliance on objective data for such elements as compensation, housing costs, food costs and vehicle maintenance costs,
- ❑ The opportunity for the Division to explicitly inject policy factors into the development of the model (such as the level of employee benefits that the Division considers appropriate), and

- ❑ The ability to directly compare certain service rates to the rates that were developed and are currently used by AHCCCS and BHS.

For certain services, the Division elected to adopt the AHCCCS rate. For independent providers, the rates were generally established at approximately 75% of the rate established for agencies, to reflect lower Employee Related Expenses and lower overhead costs. For Group Homes, the Division set the rate on the basis of the staff hour as opposed to the daily rate currently in use for reimbursement. (Billing for group homes will continue, however, based on the computed daily rate). The Division made no change to the therapy rates.

The material on the Division's web site ([www.de.state.az.us/ddd](http://www.de.state.az.us/ddd)) provides a significant amount of additional detailed information on the independent rate models. Included on the site are the methodology and assumptions (Attachment 5), as well as the models (Attachment 6) used in developing the rates that are labeled "Benchmark Rates" on Attachment 1.

Once all of the benchmark rates were set, analyses were performed to estimate the impact that the published rate system would have on the Division's expenditures. If the Division were to move all current rates to the benchmark rates, the total funds increase to the Division budget was estimated at \$20.9 million over and above the increase necessary to keep pace with consumer growth in the system. In terms of state funds, the benchmark rates proposed for the published rate system would have necessitated an increase in the general fund appropriation of \$8.3 million over and above the amount necessary to keep pace with consumer growth.

In light of the state's current budget situation, the Division and the Department scaled back the rates to a point where the published rate system could be implemented, yet be budget neutral.

### **Determination of Budget Neutral (Adopted) Rates**

In determining a budget neutral scaleback amount for the benchmark rates, the Division incorporated certain principles. Some of the more noteworthy principles were:

- ❑ The Division is committed to movement of all providers to the benchmark rate. The institution of the scaleback (adopted) rates should be viewed as a temporary contingency that is forced by the state's current fiscal situation.
- ❑ In general, the scaleback percentage from the benchmark rate should be uniform for all services.
- ❑ In general, the adopted rate should not be less than the floor rate adopted for the particular service for the state fiscal year 2003 provider rate increase. Room and Board for Group Homes and after-school Day Treatment and Training for children are exceptions where the adopted rate did fall below the fiscal year 2003 floor rates.

- ❑ For most services, the published rate schedule should be phased-in over the two remaining years permitted by the Legislature. By taking advantage of the two years, it would take providers receiving a rate increase a longer period of time to realize that increase, but providers that would be receiving a rate decrease would have a longer period of time to adapt to the new rate. The Room and Board component of the group home is the only service that moves directly to the adopted rate without a phase-in.
- ❑ During the phase-in period, there should be no more than three rates for any one service (without regard to modifiers). The impact of this principle is that the number of rates paid for any one service would be dramatically reduced (in concert with expressed Legislative intent), and providers would know the rates they would be receiving.
- ❑ The levels of interim rates used in the phase-in should produce a consistent impact to the general fund for each of the two years of the phase-in. This principle reflected the fact that without careful setting of the phase-in rates, the impact in each of the two years of the phase-in could be dramatically different. While the overall two-year impact might be budget neutral, the wide fluctuation in impacts would not be desirable.

Various levels of scaleback rates were tested, and finally a level of 93% of the benchmark rates was found to produce a budget neutral result. While the Division would like the institution of the published rate system to have produced a general increase for providers, it feels that the 93% Implementation Rates (the adopted rates) are sufficient to provide the Division's consumers access to services and quality care.

A depiction of the budget impact of the benchmark and adopted rates is contained in Attachment 4, posted on the web site.

## **Implementation**

In implementing the rate schedule, three rates for each service are proposed for fiscal year 2003/2004 (step-up, adopted, and step-down) and the single adopted rate in fiscal year 2004/2005. The rate schedule that will be used in the 2003/2004 fiscal year is included as Attachment 2 on the web site.

All providers of a service depicted on Attachment 2 that have rates in fiscal year 2002/2003 that are below the lowest rate will have their rate raised to the lower of the three rates, or the "step-up rate." All providers that have rates in fiscal year 2002/2003 that are above the highest rate will have their rate lowered to the highest of the three rates, or the "step-down rate." All other providers will be moved to the adopted rate. For fiscal year 2004/2005, all providers will be at the "adopted rate."

The Division is disappointed that because of the state's fiscal situation the published rate system using the 93% factor must be used. The Division would much prefer to have a published rate system using the "benchmark rates" and, when the state's fiscal situation improves, will seek funding levels that would

make that possible. In addition, the Division commits to a continuous process of examination and re-examination of rates across services and providers based on implementation experience.