

HF3191 - 4A - "Modify Disability Waiver Rate System"

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 Committee: **Health and Human Services Finance**
 Date Completed: **04/03/2018**
 Agency: **Human Services Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		
		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	1,919	19,072	34,751	
Total	-	-	1,919	19,072	34,751	
Biennial Total			1,919		53,823	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	1	1	1
Total	-	-	1	1	1

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	-	1,919	19,072	34,751
Total		-	-	1,919	19,072	34,751
Biennial Total					1,919	53,823
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	-	-	1,919	19,072	34,751
Total		-	-	1,919	19,072	34,751
Biennial Total					1,919	53,823
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	-
Total		-	-	-	-	-
Biennial Total					-	-

Bill Description

This bill makes modifications to the Disability Waiver Rate System (DWRS), the statewide rate methodology required for most services paid for under the Medicaid disability waivers.

Section 1 defines “direct care staff” as employees providing direct service provision, excluding executive, managerial and administrative staff from the definition. Section 2 amends references to align with the change in section 1.

Section 3 adjusts automatic inflation adjustments to occur every two years beginning 1/1/2022, rather than every five years beginning 7/1/2022 under current law. This section modifies the data used in the inflationary adjustments to be the data available on December 31st two years prior to the adjustment rather than utilizing the most recently available data.

Section 3 also adds a new component, a “Competitive Workforce Factor”, of 8.35 percent to be applied to the base wages. This change is effective 7/1/18 or upon federal approval.

Sections 4 through 7 remove the regional variance factors from rate calculations effective 1/1/2022.

Section 8 adds direct care staff labor market measures to the list of required research in the DWRS legislative report due every four years, with the next one due in January 2020.

Section 9 requires providers to submit data on number of direct care staff, wages, benefits, vacancies, and retention rates each year beginning 1/1/2019. This section requires the commissioner to publish annual reports on data findings beginning 1/15/2020.

Section 10 removes language in 2014 session law that applies after-model rate increases to framework rates. This section retains language in 2014 session law that applies after-model rate increases to historic rates used for banding in 256B.4913.

Assumptions

Programs Impacted: This bill impacts services with rates determined by DWRS provided under the CAC, CADI, BI, and DD waivers. Services with rates determined by DWRS account for approximately 80% of spending in these waiver programs.

Impacted Rates: This bill will impact all rates that are currently at the framework. It would not impact rates that are

currently banded required by 256B.4913. This analysis assumes that banding will continue until January 1, 2021. Therefore, the full impact of this proposal will not be seen until SFY 2023.

Section 3: Modification of Inflationary Updates (BLS & CPI)

Effective Date: January 1, 2022

Implementation Phase-In: Inflation adjustments are implemented on a rolling basis as service agreements renew.

Services Impacted: This change impacts all DWRS services with the exception of Customized Living and Residential Care Services.

Changes to Inflationary Updates: Under current law, wage components are required to be updated according to BLS data every five years beginning July 1, 2017. Current law also requires non-wage components to also be updated according to changes in the Consumer Price Index (CPI) every five years beginning July 1, 2017. This bill changes when the adjustments occur, the frequency at which they occur, and the data used for the adjustments.

These changes are as follows:

- *Date of adjustments:* Proposes to have them occur in January rather than July
- *Frequency of adjustments:* Proposes to have them occur every two years rather than every five
- *Data used:* Proposes to use the most recently published data as of December 31 two years prior, rather than utilizing the most recently available data

The table below summarizes these changes and how they compare to current law.

	Current Law	Proposed Change
Next Update	July 1, 2022	January 1, 2022
Frequency	5 Years	2 Years
Data	Most Recently Available	As of December 31, two years prior

This bill will result in smaller increases to rates on a more frequent schedule, resulting in increased spending in the years early in the current five year cycle and decreased spending late in the five year cycle due to the use of older data. The impact of this change is shown in the Long-Term Fiscal Considerations section.

Section 3: Competitive Workforce Factor of 8.35%

Effective Date: July 1, 2018 or upon federal approval

Services Impacted: This change impacts all DWRS services with the exception of Customized Living and Residential Care Services.

Percentage Increase: This change applies an 8.35% increase to wage components within the DWRS rate calculations. This results in a 7.1% average effective rate increase across DWRS services.

Federal Approval: The language of this bill directs the department to seek federal approval for these changes to DWRS frameworks. It is estimated that it will take approximately six months to garner federal approval, so the modified DWRS frameworks are expected to be implemented beginning January 1, 2019.

Implementation Phase-In: This change will be implemented on a rolling basis as service agreements renew.

Interaction between inflationary updates and competitive workforce factor: The inflationary and the competitive workforce factors compound within the DWRS framework. As a result, there are interactive effects when both of them are adjusted.

The interactive effect of these two changes in the bill are shown in the long term fiscal considerations section.

Sections 4-7: Removal of the Regional Variance Factor

Effective Date: January 1, 2022

Implementation Phase-In: This change will be implemented on a rolling basis as service agreements renew.

Services Impacted: This change impacts all DWRS services.

Statewide Impact of removing the Regional Variance Factor: This bill removes the Regional Variance Factor (RVF) from all rate calculations. The RVF is based on regional differences in the cost of providing services to individuals. Regions with higher costs have regional variance factors that result in higher rates, while regions with lower costs have a factor that lowers the rate.

Regional factors were developed by:

- Comparing the rate impact of utilizing regional median wage data in the rate calculations to the use of statewide median wage data in the rate calculations; and
- Weighing the final results by the total spending in each region and service bucket so that the factors are cost neutral across the state

The current RVFs were recalculated and rebased in January 2018. These final RVF values currently implemented in the frameworks are cost neutral on the aggregate. Therefore removing all RVF factors will have no fiscal impact statewide.

Individual Impact of removing the Regional Variance Factor: While this change will not impact the statewide spending on these programs, it will impact the individual framework rates of all people across the state. The table below shows the current factors by region and service type. Regions are the Metropolitan Statistical Areas (MSAs) defined by the federal Office of Management and Budget. Counties belong to an MSA if at least 25% of their population works in the urban core of that MSA. This means that some Minnesota counties belong to an MSA with an urban core outside of the state, with the logic being that businesses in that county compete in the same labor market as the county containing the urban core.

Region	Residential	Day	Unit With Program	Unit Without Program
Duluth MN Area	0.965	0.95	0.941	0.943
Fargo ND Area	1.025	0.991	1.018	1.013
Grand Forks ND Area	1.012	0.991	0.962	1.014
La Crosse WI Area	0.995	1.034	1.023	0.94
Mankato MN Area	1.023	1.043	1.058	0.974
Metro MN Area	1.023	1.013	1.022	1.013
Northeast MN	0.972	0.973	0.949	0.926
Northwest MN	0.979	1.007	0.993	0.914
Rochester MN Area	1.018	1.047	1.02	0.983
Southeast MN	0.957	0.95	0.953	0.915
Southwest MN	0.983	0.979	0.954	0.926
St. Cloud MN Area	0.954	0.946	0.922	0.948

Sections 8 and 9: Workforce Data Collection and Analysis

This bill requires providers who provide services with rates determined under DWRS to annually submit data on number of direct care staff, wages, benefits, vacancies, and retention rates beginning January 1, 2019. It also requires DHS to publish annual reports on provider and state level findings, beginning January 15, 2020.

Systems Impact: Workforce data reports will build on existing updates to the cost reporting initiative underway. Therefore, no additional costs are included in this fiscal note.

Administrative Impact: One FTE will be necessary starting in State Fiscal Year 2019 to receive, review, analyze, and publish this data and findings. A three month delay has been included in the first year to account for the time it takes to fill a new position.

Section 10: After-Model Adjustment Clarification

This section amends 2014 session law by removing the requirement to apply after-model rate increases to framework rates. The bill retains the requirement to apply the after-model increases to historic rates. This modification aligns with the current federal waiver plans that require the removal of after-model factors to the framework rates upon implementation of the July 2017 automatic inflationary adjustments within the framework calculations. Because this language mirrors current federal requirements and the resulting current forecast assumptions, it is assumed that this section has no cost.

Systems Impact

Updating component values will require programming in the MnCHOICES Support Plan Application and Microsoft Excel service frameworks. It is expected that the work described in this proposal would take six months to complete from the time it is started. Since these changes are in the MnCHOICES Support Planning Application, federal financial participation is 90%.

Implementation and Payment Effects

Federal Approval: The changes to framework values in this bill are effective upon federal approval. This fiscal note assumes that all changes will be approved, but includes a six month implementation delay to account for the time it will take to receive federal approval. The extension of rate stabilization (“banding”) through CY2020 is still pending federal approval. If that additional year of rate stabilization is not approved by CMS, the cost of this bill would increase by approximately \$53 million, state share, in the FY20/21 biennium and an additional \$6 million, state share, in FY22.

Payment Effect: An additional 30 day payment effect in the first year has been included to accommodate the fact that Medicaid pays fee for service claims retrospectively.

State Share: The state share of Medicaid costs in the disability waivers is 50 percent of the total cost.

Expenditure and/or Revenue Formula

Below is the expenditure formula for the implementation of the Competitive Workforce Factor. The modification to the BLS/CPI inflationary adjustments do not occur until FY22 and is therefore shown below in the long-term fiscal considerations.

Forecast (February 2018)	FY2018	FY2019	FY2020	FY2021
BI Spending	99,589,865	103,714,065	108,155,274	112,811,080
CAC Spending	42,693,443	47,715,227	52,149,983	56,863,138
CADI Spending	923,573,339	1,028,013,002	1,118,910,660	1,202,129,041
DD Spending	1,392,736,694	1,472,628,408	1,536,678,468	1,598,823,401
Total Disability Waiver Spending	2,458,593,341	2,652,070,702	2,815,894,385	2,970,626,660
% Affected by DWRS	80%	80%	80%	80%
Projected DWRS Spending	1,966,874,673	2,121,656,561	2,252,715,508	2,376,501,328
Average Rate Increase from Workforce Factor	0.0%	7.1%	7.1%	7.1%
Percent of Spending at Framework Rate	27%	28%	29%	41%
Implementation and Payment Effect	0%	9%	83%	100%
Net Impact to DWRS Spending	0.0%	0.2%	1.7%	2.9%
Total Program Costs	-	3,645,540	37,977,301	69,335,747
State Share (50%)	-	1,822,770	18,988,651	34,667,873

Fiscal Tracking Summary (\$000's)						
Fund	BACT	Description	FY2018	FY2019	FY2020	FY2021
GF	33	MA LW	-	1,823	18,989	34,668
GF	11	MnCHOICES Systems State Share	-	6	1	1
GF	15	Community Support Admin	-	139	127	127
GF	Rev1	Admin FFP @35%	-	(49)	(45)	(45)
		Total Net Fiscal Impact	-	1,919	19,072	34,751
		Full Time Equivalent		1.0	1.0	1.0

Long-Term Fiscal Considerations

Under current law, most rates calculated under the Disability Waiver Rate System are tied to historic 2013 rates until January 1, 2021. Due to this banding period, the full fiscal impact of this bill will occur after the current banding period expires, with full costs beginning in state fiscal year 2023. Additionally, the fiscal impact of adjusting the frequency of the inflationary factor updates will not be seen until January 2022. This bill will result in smaller increases to rates on a more frequent schedule, resulting in increased spending in the years early in the current five year cycle and decreased spending late in the five year cycle.

These numbers are outside of the budget forecast horizon and are provided for informational purposes only. These estimates do not include any interactive effects.

Competitive Workforce Factor				
	FY2022	FY2023	FY2024	FY2025
Workforce Factor	\$173 million	\$207 million	\$235 million	\$248 million
State Share (50%)	\$87 million	\$104 million	\$117 million	\$124 million

Inflation Adjustment Frequency				
	FY2022	FY2023	FY2024	FY2025
Inflation Adjustment Frequency	\$19 million	\$28 million	(\$198 million)	(\$39 million)
State Share (50%)	\$10 million	\$14 million	(\$99 million)	(\$20 million)

Local Fiscal Impact

This bill is expected to result in limited local government impact.

References/Sources

February 2018 Forecast
Community Supports Administration Research and Analysis

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