



INFORMATION BRIEF

Overview of Rationale and Process for Developing Individual or Level-Based Budget Allocations

Prepared by: John Agosta, Madeleine Kimmich, Jon Fortune, Kerri Melda & Drew Smith

Human Services Research Institute

Today's public service systems for individuals with developmental disabilities are buffeted by strong forces, challenging policy makers to restructure their service delivery systems. Increasing service demand, budget shortfalls, workforce shortages, reliance on legacy and often inefficient services, and mounting preferences for services that promote community integration and self-direction are among the factors pressing on systems. Working within this context, policy makers are seeking to re-design systems to achieve greater efficiency and equity. By doing so, they hope to make better use of available funding while better positioning their systems going forward.

- *Efficiency* gains can come from understanding exactly what it costs to provide a service at a given level of quality for a particular type of person. Ideally, the individual is allocated precisely what is needed, no more and no less. Most developmental disability jurisdictions, however, know little about actual costs or prices per person. Policy makers may know what is being spent per year per person, but not what it actually costs to serve that person.
- *Equity* requires understanding what supports individuals need, and making a fair allocation of resources across all served. Few systems, however, utilize protocols to reliably assess individual support needs and translate such findings into efficient and equitable resource allocations. Over time and across geographic areas, decisions made about service awards often appear idiosyncratic and unfair. Policy makers are seeking ways to allocate resources more systematically and with greater empirical confidence. It is important to assure that individuals are assigned budget allocations to match their needs, no more and no less. Equity does not mean everyone gets the same budget allocation. Equity¹ also means that uniform rates are developed for all waiver services (with the option for making those rates variable by support needs of individuals), such that all providers would receive the same rate for the same service for individuals with similar needs.

Factors Influencing Service Restructuring:

- Increasing service demands
- Budget shortfalls
- Workforce shortages
- Reliance on legacy/inefficient services
- Preferences for community integration & self-direction

Policy Makers Re-Design Systems to Achieve Greater:

- Efficiency – spending precisely what is needed, no more and no less.
- Equity – a fair allocation of resources across all served, tied to assessed support needs.

Human Services Research Institute (HSRI) is currently working with several states to design more rational and defensible reimbursement levels and/or individualized budgets for service recipients. The key starting point is a standardized assessment of individual support needs. HSRI uses the individual assessment information in conjunction with past funding expenditures to uncover the decision rules a state has employed for resource allocation. Working from this point, states can move toward a protocol for allocating resources that is more equitable and more responsive to state programmatic parameters, accountability, efficiency, and legitimacy of costs.

¹ Equity = the state of being just, impartial, and fair. (American College Dictionary)

What follows in this paper are summaries of:

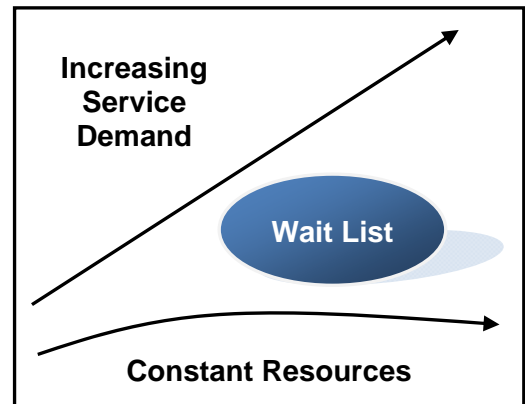
- a) Eight states who have recently undertaken efforts to develop individual or level-based budget allocations for people with developmental disabilities who participate in Home and Community-Based Services (HCBS) waivers;
- b) The strategic framework HSRI has developed to achieve needed system improvements; and
- c) Ten common Issues or concerns that states have encountered throughout the process to develop individuals or level-based budget allocation models, and examples of how states have addressed each issue.

The National Context and Trends Affecting Service Delivery

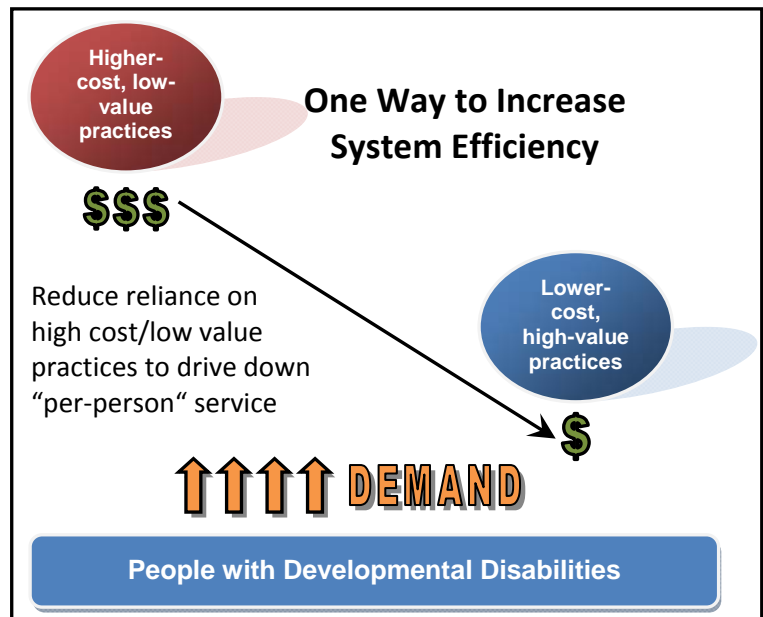
Three primary policy challenges face policy makers:

1. Continuing to promote community integration and personal empowerment. Emerging best practice centers on a continuing emphasis on community integration and “self-determination” principles. Increasingly, people with developmental disabilities and their families are demanding services that help individuals to live the life they want in the community with the support they need.

2. Reconciling increasing service demand with government revenue shortfalls. Demand for publicly-funded services for people with developmental disabilities is growing. Generally, we find that demand is increasing at a rate greater than population growth alone. It is not uncommon to observe year-to-year increases of four percent or more. At present, the challenge these circumstances place on policy makers is compounded by a weak economy resulting in government revenue shortfalls. Consequently, the pressures on the long-term supports system for adults with disabilities can only grow over the next several years. As budget growth slows, the outcome will be that more and more people and families will spill over onto waiting lists.



3. Ending reliance on legacy services that are “high cost” but of “low value.” In the interests of promoting self-determination and addressing revenue shortfalls, it is essential to look more carefully at the service array currently being supported by public dollars and to consider ways to restructure the system. Some services may be particularly costly AND not a preferred choice of individuals. Certainly, not all high cost services have low value. For instance, individuals, with extraordinary medical conditions or behavioral challenges may cost a lot to support. The money, however, may be very well spent if their health and well-being is enhanced.



To contrast, some services or practices may have high costs and low value, and yet states continue to invest in them. For example, large congregate care facilities (such as institutions) cost a good deal to operate and yet nearly all self-

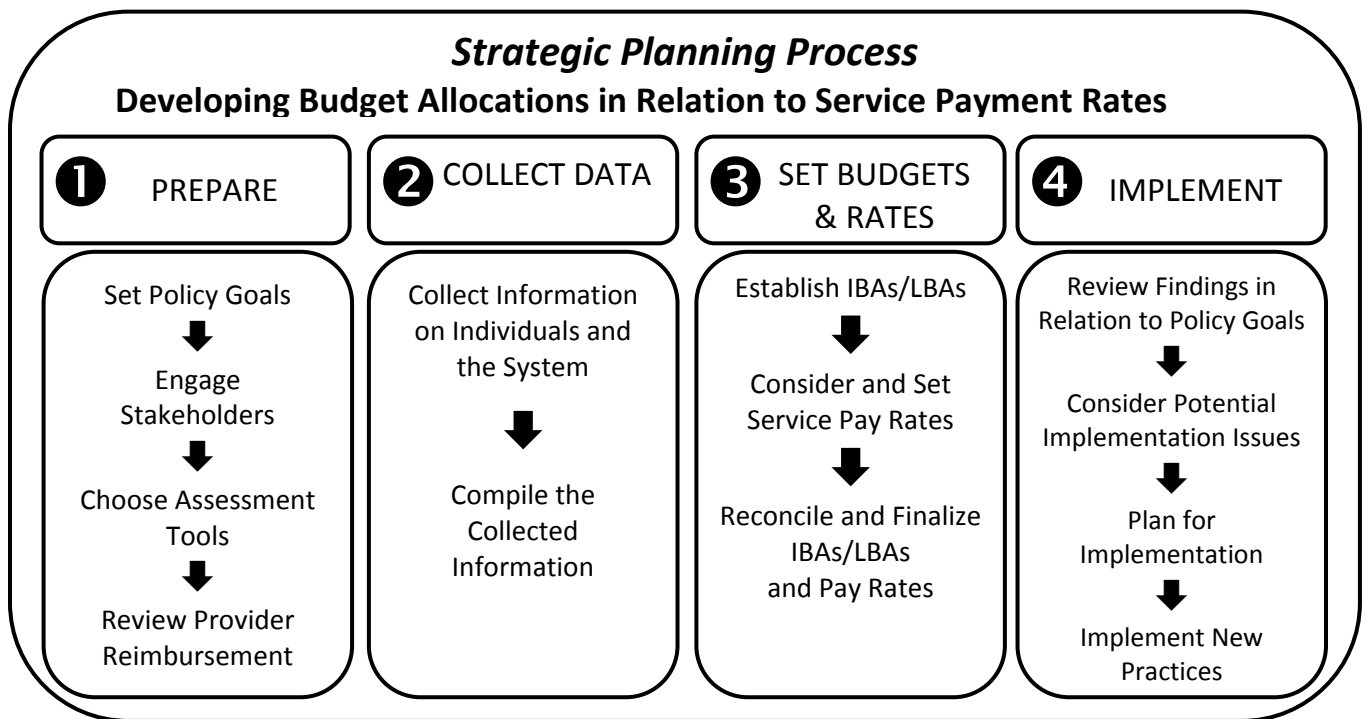
advocates would prefer to live elsewhere. In other locales, discussion may center on the value and associated costs of operating community residences of greater than 4-6 beds. Still other discussions might center on day-time training centers or sheltered workshops. For example, are such services what self-advocates want? Are the costs too high? One self-advocate, speaking to a conference room full of professionals, recently thanked her audience for all their efforts over the years, but then added, “what you built, we don’t want.” She implored all to divest from unwanted costly services, and to offer services that help self-advocates live the life they want in communities.

On the other hand, we recognize the difficulties associated with divesting from present service models. For instance, a waiver service provider of an eight bed group home may be faced with a continuing mortgage for 25 years for a facility that he was encouraged to build by his state leadership just five years ago. Likewise, a provider may own a day center that cannot easily be sold or closed in favor of alternative service approaches. Meanwhile, state policy makers may not have adjusted current waiver reimbursement rates for years, making it difficult for providers to make ends meet. Further, stakeholders may be facing budget reductions no matter what course of action they undertake. System change requiring modification to how money is spent and to what end is difficult.

Still, as illustrated above, the challenge is to make systems more efficient by eliminating wasteful expenditures and investing in lower cost, high value alternatives. By doing so, systems may actually drive down per person services costs, freeing up resources that may be used to strengthen the system or serve additional people. Complementing this approach are actions to assure that the resources are distributed equitably to individuals and apportioned so that individuals most efficiently receive the support they need, no more and no less.

The Strategic Planning Process Used to Develop Resource Allocation Models.

HSRI has developed and refined a strategic planning framework which has proven useful in leading to needed systemic improvements. This approach has four main phases: (1) preparation for the project, (2) data collection, (3) setting individual assessment levels, IBAs/ LBAs and service rates, and (4) implementation.²



² Kimmich, M., Agosta, J., Fortune, J., Smith, D., Melda, K., Auerbach, K. & Taub, S. (2009) *Developing individual budgets and reimbursement levels using the supports intensity scale*. Houston: Independent Living Research Utilization (ILRU) Community Living Partnership.

Phase 1: Preparatory Tasks

There are four preparatory tasks:

1. Policy makers must articulate their goals. While the overarching intent may be to improve the efficiency and effectiveness of resource allocation, under that umbrella may fall other policy goals:
 - Assuring that resources are authorized to individuals equitably and in ways that accurately and reliably account for personal support needs.
 - Assuring that resources are managed effectively and efficiently.
 - Assuring that services are reimbursed in ways that service providers are compensated with fair and reasonable rates.
 - Introducing participant direction into the delivery of services.
 - Assuring provider reimbursement rates reflect underlying system values and preferred outcomes.
 - Complying with the governmental requirements set by administering agencies.

At the project's outset, policy makers need to consider these and/or other policy goals, and indicate those that most drive the effort. These decisions will come into play later to help address various issues that arise and judge the outcome of the effort.

2. Engage stakeholders throughout the course of the project. Stakeholders include service recipients, parents, service providers and others concerned with the outcome. Through a "Stakeholders Committee" broad input and feedback can be continually acquired to help ensure that the envisioned changes and their implementation are consistent with service system values and principles. This involvement also will contribute to ensuring the feasibility and practicality of the changes made.
3. Choose assessment tools to collect needed information on individuals and system performance. Essential to the effort is choosing an assessment tool that will provide sufficient information to accurately and appropriately differentiate among service participants with respect to their supports needs. For instance, the Supports Intensity Scale (SIS) is an assessment tool that is used by several states. Other tools are available and states may find it preferable to use legacy tools that have been in use for years. However, it is essential that the tool selected be capable of reliably assessing support needs and is useful in measuring the relationship between these needs and dollars expended.
4. Review Provider Reimbursement. Information must be collected on the amount of money that is expended annually for each participant. In order to be most useful this expenditure information should not be biased by legacy reimbursement rates that are caused by differing geography-based and administrative jurisdictions, rates set to deal with specific deinstitutional events, or significant differences between providers resulting from a negotiation process. Removing the reimbursement system bias from the expenditure data that may be an extensive task, but is essential to deriving IBAs/LBAs that satisfy the equity.

Phase 2: Data Collection

There are three considerations associated with data collection:

1. Decide whether to begin with a small portion of the population or to gather information on all waiver recipients. Eventually, if new assessment practices and IBAs/LBAs are to be implemented for all HCBS participants, the state will need to have information on the entire population. But a state may find it more feasible, financially as well as practically, to start data collection with a representative random sample. As long as the sample is drawn properly, it can serve as a legitimate proxy for the entire population. This approach allows state policy makers to field-test crucial components of the change process: to learn how best to manage the data collection process, to smooth out logistical difficulties, and to explore the potential impact of changes in the resource allocation model. Larger samples increase the certainty of the results, especially where there are modest relationships between assessments and expenditures. Alternatively, policy makers may choose to start by assessing the entire

population. While this requires greater investment at the onset, it makes for more reliable analysis of potential risks and impacts.

2. Regardless of how a state begins this process, it is advisable to delay implementing the new resource allocation model until the standardized assessment tool has been administered across the entire population. It is crucial that the data collection is managed carefully and thoroughly. Otherwise it could significantly set back the reform effort. Success requires that data collectors are well trained and a precise process is in place to guide their actions. The assessments must be administered properly so that the funding application is built on a solid platform of consistent data. If there are questions about how well assessments have been performed, the entire funding application will be thrown into doubt. And, as data are collected, managers must continually check to assure that the data are being collected accurately and without bias.
3. The other critical issue related to data collection is proper compilation of the information. Accuracy and reliability must be assured. This requires reviewing data for completeness, internal consistency, and possible error patterns. Catching omissions or errors early can greatly reduce problems at the data analysis and interpretation stages.

Phase 3: Levels or Individual Budgets and Rates

There are two considerations associated with setting levels and usual and customary rates:

1. **Deciding to develop “Level-Based Budget Allocations” or “Individual Budget Allocations.”**

Information on individual support needs can be used either to:

- Set Level-Based Budget Allocations. The support needs of individuals are systematically analyzed in relation to costs (and perhaps direct service hours). Items in the selected support needs measure are examined in a variety of ways to determine what combinations of variables can best explain variance associated with targeted dependent variables (e.g., annual costs and/or a measure of services hours). The analysis is used to separate individuals into a reasonable number of “assessment” levels where there is meaningful separation between the levels. Typically, these levels depict low to high support needs, with other categories becoming apparent that are related to complex behavioral or medical needs. Ideally, total waiver expenditures and hours of support change in relation to changes in assessment level. The number of levels and their composition are dictated by the data set. The levels are tested against two major service categories: residential services and day services; or can be tested by living situation: group home, independent living, and living with family. It is worth noting that this process results in defined levels composed of individuals who are assigned to each level. All individuals falling within a level are assigned the same allocation (unless finer distinctions are made within levels, such as by creating sub-levels).
- Set Individual Budget Allocations (IBAs). If the data allow, it is possible for individuals to claim their own unique level, resulting in “true” individualized budget allocations. Again, it is presumed that individuals with greater needs should have access to more resources; those with lesser needs should get less. Yet, it is understood that each individual has his or own unique needs; no two people have the same needs and priorities. It is presumed that individuals and their planning teams know best what services are most important for that person. IBAs are decidedly not based on a preset determination of need for a particular provider, agency or group. Inevitably, people should choose providers, not the other way around. As a result, an IBA is both individualized to one’s need, but personalized because of how the allocation is spent later.

Achieving this level of precision, however, can be hard to do initially. IBAs are calculated by computer through systematic analysis (as described above), but each individual is granted his/her own “level” or allocation.

The IBA is portable, as is a LBA. The individual waiver participant has the funding, not the service provider. The person chooses the provider and the money moves with the person. There are no “guaranteed clients.” IBAs or LBAs are also prioritized because the waiver participant and the

interdisciplinary team set priorities and because people with the greatest need get the most. Finally the IBAs/LBAs are predictable because both the individual and the state system know and plan within their limits.

2. **Reconcile payment rates based on historical costs and assignment to levels or IBAs.** Regardless of whether IBAs or LBAs are applied, individual allocations must be based upon unbiased reimbursement rates. Depending on the results from an evaluation of the current reimbursement system, states may decide either to use the existing rate structure or take the opportunity to adjust reimbursement rates to eliminate biases in the legacy system, better define the costs (and services), increase the overall amount of reimbursement, or encourage certain services types over others. In general, our approach to rate determination stresses the application of a standard rate-determination framework that bases rates on the level of direct staff effort necessary to deliver a particular service and on observed usual and customary provider cost. This approach is designed to yield payment rates that are directly related to standardized service costs.

Central to this framework is the fundamental rate determination principle that a state’s payments for services should ensure that each provider of a service receives sufficient compensation to support the delivery of necessary services to each individual. In such a situation payments for community services will be based on assessed differences in supports needs (based on a standardized assessment of such needs), while still promoting the economical and efficient delivery of services.

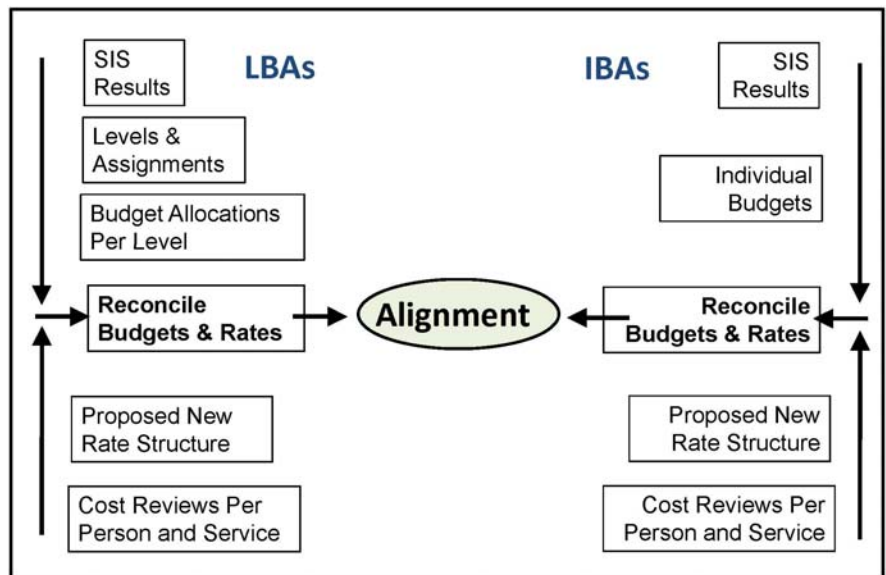
More specifically, rate setting entails three fundamental steps:

- Defining allowable costs and the subject service elements,
- Considering present provider costs by these cost elements,
- Monitoring the resulting rates to assess their aggregate impact on the system, especially with regard to budget goals (e.g., cost neutrality).

Phase 4: Implementation

Implementation requires careful reflection and planning.

- With assessment levels established and expenditure amounts associated with each level or individual budget, it is time to step back and review what has been learned.



Establishing predetermined expenditure amounts (which should operate more frequently as caps as opposed to floors) obviously has ramifications for people with developmental disabilities and for service providers. For example, some states have revised their expenditure amounts only to experience unanticipated increases in overall expenditures. In some of these states, this has led to suspension of new enrollments in the HCBS waiver to avoid expenditure overruns. Other states have experienced serious disruptions in their provider networks as a result of rate restructuring, causing negative consequences not only for providers and their staff but also for people with developmental disabilities. It is critical that great care be exercised to ensure that the revised reimbursement rates and/ or payment levels do not result in major disruptions of the supports which people with developmental disabilities and their families rely day-by-day. The state must develop the capacity to anticipate and analyze the effects of proposed changes. In particular, it is important to simulate the results of the new

payment structure, secure information about how funding patterns will change, and obtain feedback about the real-world implications of the change. Having ongoing involvement of stakeholders will be helpful in this effort.

- The provider reimbursement rates that are used in developing IBAs/LBAs may or may not be graduated to take into account differing intensities of support needs exhibited by waiver participants. As well as other factors influencing the delivery of services, such as how difficult individuals by be to serve, and their geographic location. Finally there are policy preferences pertaining to allowed indirect expenses, with a possible emphasis, for example, on allowed expenditures for staff training or health insurance. Initial prototype service rates are subsequently reviewed and revised as warranted. Finally IBAs/LBAs must be reconciled the state budget, accepted cost assumptions, rate and reimbursement rules, stat and federal policy decisions, and possibly local budgets to finalize the personal budget allocation. The budgets people are awarded must be sufficient to purchase the services they are meant to pay for and providers must likewise be reimbursed sufficiently for the services they deliver.
- Either way, care must be taken to set LBAs or IBAs to achieve stated policy goals, but in a way to minimize dislocation for individuals. States must be aware as new allocation are set, some individuals will have increases or reductions in the amount they are assigned, and plans must be developed to handle them.
- A plan must be developed to implement the new policies and practices across the system. This will likely entail modifying administrative rules, building awareness among individual and providers, training staff who are key to the implementation process, developing individual service plans, revising billing and payment practices as needed, and otherwise assuring smooth implementation. In addition, state staff should be prepared to use “exceptional care/cost” procedures to accommodate individuals who have unique support needs and do not fit within the established cost allocation model. Any model, after all, is a “best fit” solution to accommodate most individuals and will likely not be satisfactory for all.
- The new practices are implemented. State staff must work with waiver recipients, their families, service providers and others to see that new procedures and decision rules are put in place and monitored over time, so that adjustments can be made as necessary. Experience reveals that several iterations are typically needed before the new allocation system becomes an accepted integral part of the overall service system. During the “transition” period, the state agency may find it necessary to mitigate the near-term financial impact of the new structure on providers as well as individuals.

Overall, the process is a challenging one, dealing with the uncertainty of what the data will present as well as the sensitive dynamics of the situation on the ground. It is not a process which can be rushed. Each state is different. The basic approach must be to follow the data and actively engage all stakeholders.

Concluding Remarks

The past few years have witnessed substantial growth in the commitment among policy makers to improve the equity and efficiency of developmental disability service systems, especially regarding resource allocation processes. Budget shortfalls combined with increased demand for supports – not just more service hours but also more person-directed supports – among other factors have also coincided to lend support to this policy trend. In addition, advances in technical knowledge and capacity to assess individual support needs and develop better informed resource allocation protocols are making it increasingly possible for policy makers to restructure their allocation systems. The emergence of the Supports Intensity Scale (SIS) as a standardized, reliable tool for assessing individual needs has been a crucial development. Several states like Colorado, Georgia, Oregon, and Louisiana are using the SIS to inform individual budget allocations or assessment informed reimbursement level systems.

At issue for policy makers is whether or not to follow this lead even in hard times. Doing so would require great effort from staff and would cost a significant amount to achieve. Going forward, policy makers have at least these three options to choose from:

- **Continue on as is.** This option would keep the present ways of allocating resources intact, maintaining whatever inequities and efficiencies are already inherent within the system. If policy makers feel the system is already sufficiently efficient and equitable, and are not under pressure to make dramatic changes, this may be an appropriate approach in the current tough economic climate.
- **Develop a new measure to assess support needs or utilize an existing legacy instrument to restructure.** Constructing an instrument from scratch with acceptable psychometric properties is a formidable and costly task. Few, if any states, will have the resources, expertise and time to do so.

Alternatively, some states may already be using an existing assessment protocol such as the *Inventory for Client and Agency Planning (ICAP)* or a locally developed tool to assess individual needs. The ICAP is presently used in several states like Indiana, Maryland, South Dakota, and Wyoming for this purpose and to inform resource allocation. Similarly, California and New York have developed measures that are used for this purpose and Florida is acting to utilize its own longstanding protocol as well.

Use of a locally developed measure, however, comes with its own costs and may need to be carefully reviewed to assess its psychometric properties and utility for assessing need in relation to resource allocation. Moreover, such tools may be based more on assessing individual deficits and characteristics than support needs. Likewise, they may use outdated-language or words that are not “people first” friendly. As a result, use of a legacy measure may require substantial study and revision. Even so, after this work is completed it may be determined that the measure is not up to the task. However, continuing to use a historical measure has the advantage that it allows comparison over time (as long as the historical scores are in an accessible form and database).

- **Make plans to utilize the SIS to inform level-based or individual budget allocations.** The SIS can be used to help establish a reliable assessment-informed means setting individual budgets. The SIS is not the only instrument that can be used, but several jurisdictions are adopting it for this purpose. Earlier we described the process that should be undertaken to build such a system.

The process will require adequate funding to complete at least these steps:

- Purchase the SIS from AAIDD;
- Train suitable assessors to collect information, perhaps utilizing AAIDD master trainers;
- Make policy decisions all along the way to inform model construction;
- Create procedures for accommodating those who do not easily fit into the designated models;
- Adequate funding to examine the rate structure
- Develop a means for automating processing of information on individuals once it is collected to set budgets;
- Create various complementing administrative practices to manage intake of new recipients, service planning, and information going forward;
- Train staff throughout the jurisdiction to implement the new structure.

Boldly stated, if policy makers are committed to developing an assessment informed protocol for allocating level-based or individualized budgets, the third alternative above, or some iteration of it, may be the most attractive option. Going forward, however, it is prudent to develop a detailed work plan for this option with associated costs so that the policy makers can make an informed decision over how to proceed.