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| Considerations in Developing a Resource Allocation Approach for HCBS Programs |
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Table of Contents

[Overview of the Components of a RA System 1](#_Toc438551476)

[Key Tasks for Developing a RA System 3](#_Toc438551477)

[RA Development Design Decisions Assumptions 3](#_Toc438551478)

[1) Populations to be Included in the RA 3](#_Toc438551479)

[2) Services to be Included within the RA Approach 4](#_Toc438551480)

[3) Process for Obtaining Assessment Data 4](#_Toc438551481)

[4) Stakeholder Input Process 4](#_Toc438551482)

[5) State Staff Assistance 5](#_Toc438551483)

# Overview of the Components of a RA System

The core of the RA will be an algorithm (i.e., a procedure or formula) to assign a budget to an individual eligible for home and community-based services (HCBS). The algorithm can set a cap, a target range, or a benchmark for what the budget should be based upon the participant’s characteristics.

Even the best algorithms explain less than 50% of the variance in spending on supports. Therefore, it will be important to enhance the effectiveness and fairness of this algorithm by supporting the algorithm with the following business processes:

1. There should be a clear process for objectively establishing and pricing a support plan. This plan should translate the participant’s preferences, goals, and needs into a requested budget amount using a person-centered process. It will be important to document the rationale for the budget for two reasons:
   1. CMS rules require that services be based on assessed needs. Therefore, the support plan should demonstrate the connection between the assessment and the requested services.
   2. A state agency will be in a stronger position to determine if a support plan is appropriate if agency staff can easily understand the rationale for the requested amount.
2. If the RA approach sets budget limits based upon an algorithm, the RA process should include a clear and consistent process for determining when an exception to the cap should be allowed. The exception process should be flexible enough so as not to be too burdensome for someone who has actual needs that exceed the assigned cap, but not so open as to become a default alternative process.
3. The RA approach should include approaches for mitigating the lack of precision of the algorithm, including addressing uneven or intermittent expenditures. The first LTSS RA approaches were the case mix systems, such as the Resource Utilization Groups (RUGs), which were originally developed in the 1990’s for nursing facilities. These approaches assumed that the assigned budgets would be pooled across everyone in the facility; thereby mitigating the lack of precision of the algorithm. For HCBS systems, states use multiple approaches for mitigating risk, such as having a pool of emergency hours or allowing clients to pool a portion of hours (similar to a sick leave pool), or giving local entities, a pool of extra funds that could be used to fill gaps.

In summary, a state agency should consider an approach that includes a mix of algorithm(s), risk pooling mechanisms, service plan development that clearly ties assessment results to requested supports, and exception processes.

# Key Tasks for Developing a RA System

Developing a RA system involves the following steps:

* **Creating or adapting an algorithm and attaching costs to that algorithm:**  A state agency will face a choice of developing new methods for assigning individuals a budget based upon historical or projected spending or rely on assigning budget amounts to existing algorithms (e.g., the RUGS-III-HC).
* **Estimating the impact of the algorithm on each participant:**  This will include understanding how many individuals will receive more funding under a new system and how many individuals would receive less and what is the potential impact on the overall budget. These analyses will be helpful in determining which if any adaptations should be made to the algorithm(s) and for providing guidance to the criteria that should be used for exception processes.
* **Designing business processes to support the RA system**, including:
  + Identifying changes to data processing systems;
  + Creating administrative practices to maintain it on an ongoing basis;
  + Incorporating the RA into case management and support planning;
  + Creating administrative processes to identify and adjudicate exceptions; and
  + Considering processes that will allow for polling of funds.
* **Developing implementation plans:** A key consideration will be whether to phase in the RA to mitigate impacts on participants losing hours and/or dollars

## RA Development Design Decisions Assumptions

Below, we discuss design factors that will influence the cost of developing the RA.

### Populations to be Included in the RA

A RA effort may need to develop an algorithm or algorithms that are appropriate for the different types of disability populations, such as:

* Children
* Adults with physical disabilities
* Individuals with intellectual and developmental disabilities
* Individuals with complex behavior health
* Older adults
* Individuals who are medically-fragile and/or have complex health needs

These populations are not mutually exclusive. Under RA systems, more than one algorithm may apply to the same individual. In such situations, rules would need to be established to decide what amount the individual would receive.

### Services to be Included within the RA Approach

The breadth of services to be included in a RA system may complicate the effort, especially if service definitions and rate structures have not been developed or need to be revised. For examples, if rates require substantial updating, then it may be necessary to collect provider costs.

### Process for Obtaining Assessment Data

Regardless of the approach, the RA development will require collecting assessment data using a standardized assessment tool. Any reliability and/or validity issues with the assessment tool will be translated to the RA approach. Therefore, it may be necessary to revise or replace the assessment tool prior to RA development.

The development of a new RA algorithm or creation of a new one will require a minimum of 400-500 individuals. In addition, a sample may not include some outliers that, while not statistically significant for developing the algorithm, will be important to understand for actual implementation. For example, there may be one or two atypical medically-fragile, technology dependent children with extremely high costs that will likely not be reflected in the algorithm. Knowing about these individuals beforehand will allow a state agency to craft this as part of the exception process and flag these individuals for special consideration during implementation, avoiding unnecessary alarm by the families.

### Stakeholder Input Process

Other states who developed RA systems described this as a “high-touch” activity. It is better to involve stakeholders at the beginning of the process and communicate with them throughout the process.

The RA development effort should include funds for extensive stakeholder involvement. This could include:

* A communication plan
* At least monthly meetings
* Public input gathering and education sessions
* A website or blog to inform individuals of updates

### State Staff Assistance

The cost of developing the RA will vary depending upon the degree to which certain tasks are conducted by state agency staff versus an external contractor. At a minimum, the RA effort will require at least one staff person devoted to this effort. Other state agency staff will need to spend substantial amounts of time reviewing the development of the RA systems both in conjunction with and independently of the larger stakeholder process.

State agencies developing RA systems will need to make the following decisions regarding the role of agency staff versus an external contractor:

* Who will review the adequacy of current assessment data and decide if more or different data should be collected?
* Will state agency staff retrieve and prepare the cost information for analysis or will this be done by contractors?
* Will state agency staff link the cost data to groups of individuals developed from the assessment information or will this be done by contractors?
* Will agency staff staff act as the peer reviewers of the results or should other resources be brought in?
* What role will state agency staff have in the development of the new reimbursement rates and the calculation of their fiscal impact?