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Report ILR 2015-A: A Limited Review of Provider Rates for the Division of Services for People with Disabilities

The following information addresses concerns with the Division of Services for People with Disabilities' (DSPD) service provider rates sufficiency in providing services to clients. These concerns were voiced during the February 5, 2015 Legislative Executive Appropriation Committee meeting and are important as DSPD provides many services for residents with intellectual and physical disabilities, acquired brain injuries, and autism spectrum disorder. In fiscal year 2014, DSPD provided services to 4,946 individuals through its four community-based programs.

Pursuant to the request, we conducted a limited review and found:

- Virtually all appropriated funds discussed by Executive Appropriations for waiting list reduction have been allocated for client services.
- Compensation for direct care providers' staff is low compared to other states, limiting private providers' ability to compete for labor.
- Turnover of direct care providers' staff is high compared to other states.
- DSPD provider rate increases have not kept pace with inflation and are key to providers' ability to hire and retain staff.

These issues are addressed in the following sections.

Appropriated Waiting List Reduction Funds Have Been Allocated

The Executive Appropriation Committee's discussion focused on a one-time $1 million appropriation to DSPD to enroll individuals into services from the waitlist and about how $600,000 of those funds are unspent. Our review identified that, although $778,000 of the $1 million was unspent as of February 10, 2015, 97 percent of those funds were allocated to DSPD clients, waiting to be spent.

In fiscal years 2014 and 2015, DSPD was appropriated $500,000 of ongoing state funds and $1 million of one-time state funds, respectively, to address the needs of individuals on the waitlist.[1] DSPD's community-based programs receive federal matching funds, which reimburse DSPD for about 70 percent of its total direct client service costs. Therefore, the fiscal year 2014 ongoing state waitlist appropriation of $500,000 equates to about $1.7 million in new ongoing funding for DSPD services. In fiscal year 2015, the $1 million in state one-time funds equates to approximately $3.4 million total funds.

The use of one-time funding in fiscal year 2015 for waitlist reduction creates a problem for DSPD because once an individual is taken from the waitlist into services, services are for life as needed. The $3.4 million created by the fiscal year 2015 appropriation and federal match commits DSPD to pay for future years of provider services for new clients even without future appropriations. Figure 1 shows the number of individuals added to the waiver from the waitlist as a result of the additional appropriations in 2014 and 2015 and the total funds available, spent, and unspent but allocated.

Figure 1. As of February 10, 2015, Most Fiscal Year 2015 Waitlist Funds Have Been Unspent but Are Allocated. At the end of the prior fiscal year, most fiscal year 2014 waitlist funds had been spent.

Fiscal Year	Clients Selected from Waitlist	Waitlist Funds Available (State)	Waitlist Funds Spent (State)*	Amount Unspent but Allocated*
2014	121	$ 500,000	$ 394,869	$ 105,131
2015	202	$ 1,000,000	$ 221,548	$ 778,452**

Source: DSPD data and auditor analysis
** For fiscal year 2014, total waitlist state funds spent is as of June 30, 2014. For fiscal year 2015, total waitlist state funds spent is as of February 10, 2015.*
*** Although $778,452 was unspent as of February 10, 2015, including the federal match funds, DSPD has allocated over $3.3 million of the $3.4 million available for client services to the individuals removed from the waitlist and enrolled in DSPD services in fiscal year 2015.*

When DSPD enrolls individuals from the waitlist into their community-based programs, the individuals are allocated a budget. This budget identifies the services needed

[1] Under 2013's Senate Bill 259, 15 percent of these funds are to be allocated to a group of individuals initially chosen from the waitlist for respite-only services.

and the annual estimated cost for those services. For fiscal year 2015, most one-time waitlist funds were not spent as of February 10, 2015, but virtually all of the funds were allocated to individual client budgets. This means that DSPD has allocated over $3.3 million (97 percent of the $3.4 million total funds) to clients' annual budgets that will ultimately be spent and will need to be readdressed each year to meet funding requirements.

DSPD May Not Use Nonlapsing Funds to Increase Provider Rates. Although $778,452 currently remains unspent (as of February 10, 2015), ***Utah Code*** 62A-5-102(7) prohibits DSPD from using these nonlapsing, one-time funds to increase provider rates, which constitute the majority of DSPD's service provision. DSPD is permitted to use these funds to provide short-term and limited services, including respite care, services brokering, family skills classes, after-school group programs, and other professional services. There is currently a motion being reviewed in the Social Services Appropriations Subcommittee that (starting in fiscal year 2016) would allow DSPD to provide increases to providers for direct care staff salaries with nonlapsing funds available at the beginning of each fiscal year.

DSPD Reports Time Between Moving from the Waitlist to Actually Receiving Services Is Growing. According to DSPD, from 2012 to 2014, the average time between removal from the waitlist (being placed on the waiver) and the commencement of services has grown from 79 to 233 days. DSPD reports that this increase is caused by service providers' inability to provide services to more individuals. Service providers claim that the rates allocated to DSPD services are set too low for them to pay competitive wages. The low wages result in an inability to attract sufficient new employees and retain existing employees. The shortage of available service provider staff results in an inability to serve additional DSPD clients and unspent funds.

Compensation and Retention of DSPD Direct Care Providers Need Improvement

DSPD's compensation of direct care providers is low and turnover rates for the two largest companies that employ direct-care providers are high. According to the American Network of Community Options and Resources (ANCOR), Utah is one of 15 states with an average starting wage less than $8.50 per hour; the national average is $9.13 per hour, while the average starting wage for states bordering Utah is $8.94 per hour.[2]

[2] Source: Data provided by the Utah Legislative Fiscal Analyst's Office from ANCOR (American Network of Community Options and Resources), a national association of providers of services for people with disabilities. The data includes the state average starting wage for direct care providers collected by ANCOR in a population survey of providers across the United States. ANCOR is a national, nonprofit trade association representing more than 800 private community providers of services to people with disabilities, serving over 400,000 individuals with disabilities.

We contacted the two largest direct-care service provider companies that account for 33 percent of DSPD-eligible, direct-care operations to identify compensation and retention issues they face. At the first company, starting salaries for direct-care providers is generally $8.00 per hour. This company employs 1,156 direct-care providers. Of those direct-care providers, 770 staff-level positions currently earn between $8.00 and $8.99 per hour, while 179 more seasoned staff earn between $9.00 and $9.99 per hour. Company administrators report that the remaining 207 employees earn somewhat more because of longevity and some managerial duties.

The second company starts all direct-care provider staff at $8.00 per hour throughout the state; except in Vernal, Salt Lake County, and Utah County where the starting salary is $9.00 per hour. Company administrators report minimal staff hourly rate increases over the years.

In addition to low hourly compensation, direct-care providers have extremely high annual turnover rates, both nationally and in Utah. The first company reported an organizational turnover rate of 80 percent in Utah and 60 percent for their operations in two other states. The second company reported their Utah organizational turnover rate was 86 percent in 2014. Their direct-care staff turnover rates ranged from 78 percent to 126 percent annually from 2010 to 2014. The second company also reported that their turnover rates in other western states are high, but typically not as high as turnover in Utah. While low pay clearly contributes to turnover, the providers also noted that increasing costs, such as medical insurance, and the relative difficulties in working with DSPD clients has severely affected the ability of providers to recruit and retain individuals.

The Purchasing Power of Provider Compensation Has Decreased

DSPD service rates are the billing units for services rendered. It appears that DSPD service rates, which are the basis for private service provider compensation, have stagnated for a number of years and have not kept pace with inflation. Our review of DSPD's service rate appropriation adjustments and inflation for fiscal years 2009 to 2014 identified that provider purchasing power has decreased by 5.8 percent over this five-year period.

DSPD's provider cost-of-living adjustment (COLA) information since 2009 indicates that these legislative adjustments are accounted for on a percentage basis. Figure 2 shows the annual estimated adjustment to provider compensation through COLAs and its interaction with inflation.

Figure 2. Inflation Has Outpaced Provider Service Rate Increases. Adjusting for inflation to 2014 dollars, DSPD's net service rates declined by 5.8 percent between fiscal years 2009 and 2014.

Fiscal Year	Provider COLA	Inflation Rate*	Net Provider COLA
2009	3.0%	1.3%	1.7%
2010	-3.5	0.6	-4.1
2011	0.0	1.7	-1.7
2012	0.0	2.7	-2.7
2013	3.5	1.8	1.7
2014	0.8	1.6	-0.8
Total	**3.8%**	**9.6%**	**-5.8%**

Source: DSPD data and auditor analysis
**The inflation rate is derived from the Consumer Price Index for the west urban region of the United States.*

As the figure shows, the total provider COLA increase since fiscal year 2009 is 3.8 percent. However, when the 9.6 percent inflation rate from this same time period is accounted for, the net provider COLA is a 5.8 percent decrease. In real dollar terms, it appears that the purchasing power of provider rate-based compensation has been decreasing.

While identifying this decrease is a start toward understanding the dynamics of provider purchasing power and, ultimately, provider staff compensation, it is only part of the rate issue. Addressing DSPD's service rates is a complex task that needs a comprehensive review to fully assess the dynamic interactions between service levels, recipient needs, labor needs, and sources of funding.

Recommendation

1. We recommend that the Legislative Audit Subcommittee consider prioritizing a full audit of the Division of Services for People with Disabilities' (DSPD) direct provider services to determine:
    - The level of contractual control exercised by the division over its contractors
    - The sufficiency of funding allowed by the division's service rates
    - The interplay between recipients' need and service-level provision