

MEMORANDUM

To: Michigan Department of Labor and Economic Opportunity,
Rehabilitative Services

From: Public Consulting Group LLC

Date: January 19, 2024

Subject: Summary of PCG's Analysis and Fee Structure Recommendations for
Vocational Rehabilitation Services

Purpose

The purpose of this memo is to provide the analysis and fee structure recommendations for vocational rehabilitation (VR) services produced by Public Consulting Group LLC (PCG) as part of its contract (Contract Change Notice Number 5, Contract Number 210000001592) with the Michigan Department of Labor and Economic Opportunity, Rehabilitative Services (MRS). One of the deliverables of this scope of work is to provide replicable rate methodologies for future use. For readability, this memo outlines the methodologies at a high level. Detailed documents that support replicability will be provided as a supplement to this memo.

Background

MRS contracted with PCG in 2019 to conduct a study of its vendor rates as part of its transition from a benchmark-based payment system to hourly rates. These rates were developed in 2020 and implemented statewide in 2022. Due to inflation occurring after the 2020 rate study, MRS published an updated fee schedule in April 2023 that applied an inflation factor to the 2020 rates. To address market changes more systematically, MRS contracted with PCG in 2023 to conduct an abbreviated rate study (referred to throughout as the rate refresh), building upon the data collected in 2019. These rates were designed for implementation in calendar year 2024.

Project Methodology

PCG employed a four-phase approach to this engagement. Throughout the engagement, PCG maintained regular contact with MRS via weekly meetings and emails to solicit feedback on the rate refresh methodology, analysis, and recommendations. PCG conducted ongoing project management activities, including regular check-in meetings with MRS staff, ongoing coordination of the cost reporting, quality assurance activities, and stakeholder town halls.

PCG employed a multi-pronged methodological approach to conducting the rate refresh. The team reviewed the prior rate methodology, collected and analyzed market wages, and conducted peer state research. This memo provides in-depth information on these primary elements, which all feed into the recommendations brought forth by PCG. Figure 1 outlines PCG's approach to conducting this rate study.

Figure 1: MRS Rate Study Methodology Overview



Stakeholder Engagement

To gather information from VR vendors across Michigan, PCG and MRS staff held two vendor town halls—one on November 7, 2023 (73 attendees) and the other on November 14, 2023 (20 attendees). In preparation for the town halls, PCG and MRS identified topics of interest for MRS, and PCG created a series of questions to solicit vendor feedback. The questions provided a structure for sharing vendor comments and focused on topics such as communication with MRS leadership, staff retention, and innovative practices. PCG asked questions verbally and through Zoom polls. (See Appendix A for the town hall vendor question guide.)

A common theme of the feedback provided during the town halls was consistency; vendors expressed a desire for consistency in a variety of areas, including communication, policies, and paperwork. Vendors also expressed concerns regarding rates and their impact on vendors’ abilities to retain staff and promote innovation.

When asked about their interest in routine meetings with MRS district or state leadership, all participants reported being interested in such meetings. The majority of vendors reported preferring quarterly meetings. Vendors provided a wide variety of topics they would like to discuss during these meetings. The most requested meeting topic pertained to developing consistent policies as well as clear procedures to support the policies, relating to concerns outlined above.

The second most requested topic was the development of consistent forms (e.g., monthly reports, invoices) to be used by MRS offices statewide. Vendors also noted that it would be helpful for forms to remain consistent for a set period of time, such as one year. Other meeting topic requests included increased collaboration among vendors, MRS staff, and leadership; ongoing discussions

of rates paid to vendors, including the impact of rates on service delivery and program development, financial implications (intended and unintended), and the potential use of rates to achieve MRS goals; and the development of a system that supports and rewards innovation by vendors and MRS.

Vendors reiterated that they feel there is a lack of consistency across MRS offices in implementation of policy and practice, including among counselors' expectations for the same service. Vendors reported inconsistencies in policies such as allowable reimbursements, required forms, and timeframes for approvals and reimbursements. For example, vendors described how some of them incur the training costs for certifications, conference attendance, and continuing education credits, while others do not. Regardless, both vendors incurring these costs and those receiving reimbursement enjoy the same payment for services provided by their staff. Vendors reported that these inconsistencies, as well as frequent changes in procedures without notifying vendors and a lack of flexibility regarding mistakes on authorizations, result in service delays for clients and vendors not being paid for all services provided. To address these concerns, MRS could consider having a statewide policy on all requirements to provide services, including required forms for use statewide and consistent reimbursement policies for non-direct service expenses.

Vendor Suggestions

- Quarterly meetings
- Consistent implementation of policies and procedures
- Compensation related to credentials
- Facilitation of innovation

Vendors also expressed concern over the lack of required credentials for some vendor types, allowing individuals with fewer credentials or less training enter the market and receive the same rates as experienced, credentialed vendors. In addition to referrals, these vendors may also provide lower quality services while being reimbursed at the same rate. Vendors felt some component of rate determination should rest on the level of experience or education/certification, or that some form of compensation should be linked to performance and customer outcomes.

Only 15% of vendors responding to a poll question reported feeling that MRS policies and procedures support vendor creativity and innovation.¹ The vendors commented that they feel counselors used to have greater discretion to adapt service authorizations and service hours to meet the individual needs of clients. With the shift to primarily hourly rates in 2020, vendors reported that they do not receive reimbursement for innovative program development or development activities with employers. To address this, MRS could consider how to expand communication and collaboration with the Business Network Division and to foster relationship development, both among vendors (to support a greater degree of collaboration and innovation) as well as between vendors and employers.

Staff retention was a common concern among vendors attending the town halls. A key element of staff retention is revenue, including the projection of future revenue, and a vendor's capacity to pay staff and give raises. However, vendors felt that MRS cannot guarantee a predictable flow of client referrals or a predictable revenue stream. Without a certain level of predictability, vendors find it difficult to plan their staffing needs. They also noted that the current rates are too low and only cover the costs of providing services, which hamper their ability to retain staff. Rates that

¹ Forty-five percent (45%) of participants disagreed with the statement, 25% were neutral, and 15% strongly disagreed.

cover service costs and related investments in staff, such as professional development, could allow community providers to increase staff retention and progressively serve more clients. Incorporating requirements for certain credentials (or paying higher rates to credentialed providers) could help address this issue, according to vendors.

Peer State Service Rates

As part of the rate refresh, PCG reviewed rates for comparable VR services provided by six peer states: Colorado, Florida, Indiana, New York, Texas, and Wisconsin. In collaboration with MRS, PCG selected these states based on similarities to MRS, including states with similar population sizes, general size of the VR agency, geography, urban/rural distribution, geographic proximity to Michigan, and depth and breadth of services. MRS's current rates are generally in the range of those of their peer states for customized employment, job development/placement assistance services, job readiness training, on-the-job evaluations, and trial work experience services. MRS's rates are considerably higher than its peers for pre-employment transition services (pre-ETS). In contrast, the peer states offer higher rates for benefits counseling and job coaching services.² (See Appendix B for a full listing of rates and fees paid by each peer state.)

Several states have reviewed their VR rates in recent years to analyze the potential connection between service rates and subsequent employment outcomes. States found that jobs obtained by VR clients tended to have relatively low hourly wages, be part time (less than 30 hours a week), and usually did not include employer-provided health benefits. As a result, several states instituted bonus and incentive payments to encourage vendors to help clients find full-time employment at or above a certain wage that included benefits. For example, Wisconsin has a bonus payment to vendors if a client secures a job within 90 days of signing their Individual Plan for Employment. (See Appendix C for additional examples of states offering incentive and bonus payments.)

Based on peer state rates and current input from MRS, PCG is recommending no adjustment to currently established rates for pre-ETS services.

Legacy Rate Methodology

In 2020, PCG provided MRS with rate recommendations for certain VR services by collecting provider information from three primary data sources: cost reports, personnel rosters, and time studies. The cost reports captured high-level service, revenue, and expense information related to the applicable MRS programs in provider fiscal year 2018. The personnel rosters provided the mean hourly wage of direct service staff and served as a measure of quality assurance for the time studies and market salary rate research. Time study data was requested from all personnel that deliver VR services paid via MRS programming, which provided time spent on activities to develop a billable percentage for the rate build. PCG reviewed these data sources to act as a starting point for developing the rate refresh methodology.

PCG developed a custom time study tool that captured the services included in the rate study. After the quality assurance process, 69 out of 83 counties were represented in the time study. Participants measured their time based on 15-minute activity categories during a 14-day period. This information was used to calculate the proportional wage, a billable percentage, and mileage

² Michigan was only state reviewed that provides Adult Literacy or Remedial Training, counseling and guidance, personal care assistant services, and tutoring services.

factor. Next, PCG developed weighted wages by proportioning salaries with the overall percentage of time the direct-service position contributed during the time study. PCG utilized the calculated average for proportional wage, billable percentage, and mileage factor from the prior study in 2020 in the current rate build up for 2024.

Rate Calculations

To establish a rate calculation methodology for this study, PCG reviewed the rate study conducted in 2020 and the most recent rate table released by MRS in April of 2023. PCG established an updated rate methodology and calculation for the service types included in the 2020 rate study. PCG calculated payment rates using data from the 2020 cost and time studies; 2023 market analysis, including an analysis of Bureau of Labor Statistics (BLS) data and other online sources such as Indeed; qualitative data from focus groups and peer state research; and feedback from MRS subject matter experts.

PCG built a base model for each primary position title performing each service type listed in the current rate table using the prevailing wage identified in the market salary research. PCG followed best practices in rate setting by using the same average reported data for the remaining inputs of each model (e.g., average reported benefits, average reported administrative and support costs, percent billable, etc.). As such, all rates were calculated using a similar methodology with different inputs. The methodology for calculating each rate is described in the following sections.

Rate Refresh Methodology

PCG utilized cost-based rates to align the actual cost of service delivery with contract requirements and ensure that employee wages are consistent with efficiency, economy, and quality of service delivery. Allowable costs are determined by Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200) and other federal, state, and program rules and regulations. PCG used provider-reported cost data and market salary research for data sources in this engagement.

To develop a rate for a specific wage, there are a variety of factors, each applied in turn, to “build up” the rate. The factors and associated rate build-up metric calculations are designed to capture all expenses involved in service delivery. These include:

- **Hourly salary:** Average hourly employee salary for the service delivery of the positions updated was calculated first.
- **Hourly benefits:** Tax and fringe percentage for all providers who can pay fringe.
- **Hourly other personnel and overhead costs:** Percentage of costs from administrative and support personnel.
- **Mileage:** Calculated then added based on travel time information received from providers.
- **Billable direct service time:** Percentage of time that staff are providing direct services to clients.

To complete the rate build, PCG pulled from data from the rate study conducted in 2020 by PCG. PCG used the prevailing wage in the market salary analysis to identify the mean hourly wage for each position title performing each service type. The calculation then adds the percentage of employee tax and fringe benefits. From there, the calculation accounts for other administrative

and program support expenses (except mileage). Finally, mileage was added based on travel time data reported by providers.

The table below shows an example of how these pieces fit together in the rate build-up steps, applying the salary information for job coach for trial work experience. The dollar input column shows the dollar amounts calculated in the formula using the percent benchmarks identified through provider cost reports and time study data from the 2020 rate study. For example, the rate build model below shows that the job coach’s hourly salary of \$20.00 multiplied by 35.59%, which is \$7.12. Therefore, the salary and benefits for the job coach totals \$27.12/hour. The rate build follows this same calculation as the rows continue through the calculation for other personnel and overhead costs and mileage.

Table 1: Example Rate Build

Trial Work Experience		
Line Item	Rate Calculations	
	\$ Input	%
Hourly salary	\$22.66	
Hourly benefits	\$8.06	35.59%
Hourly employee salary + benefits	\$30.72	
Hourly other personnel and overhead costs	\$13.21	43.00%
Total costs/hour	\$43.94	
Reported mileage	\$1.94	
Total costs/hour less reported mileage	\$42.00	
IRS rate mileage	\$2.58	
Total hourly all personnel, overhead, & IRS mileage	\$60.18	74.07%

The following section includes a description of how each of these pieces fit together in the rate build as well as which components remain the same from the 2020 rate study and which have been updated to reflect current economic growth.

Hourly Salary

In the 2020 rate study, the mean hourly wage for each rate model build was identified using the percentage of time that position titles performed each service type multiplied by the wage for those positions. PCG’s updated methodology uses the mean hourly wage for one position title rather than combining all positions based on the amount of time indicated performing the service. To update this portion of the rate model build, PCG conducted market salary analysis and chose the prevailing wage for the position titles. A description of this analysis and the corresponding results are detailed below.

Market Salary Analysis

Market rate wages were assessed and used in the rate calculations to help ensure that the calculations were reasonable in relation to market realities. Market wages reflect the broader wage being paid for positions of similar work and skill level. In a competitive job market, it is important to consider the broader market wage due to the high availability of jobs. PCG identified the market wages for each VR position in Michigan and nationwide. Reported wages from

providers reflect the current salaries of direct service staff and may be determined due to salary constraints. However, by benchmarking the current provider wages against the market wages, salary estimates used in the rate setting model can best reflect the current job market.

A salary benchmark was identified for each discipline using the May 2022 State Occupational Employment and Wage Estimates Data Published by BLS for the nation, states in the BLS Midwest Region, and the state of Michigan. The BLS data uses information from all business sectors of metropolitan and non-metropolitan areas of Michigan, both public and private. Some of the MRS job titles did not match directly to the BLS Occupational Titles. In these instances, PCG used job responsibilities and required education and credentials listed in the MRS Rehabilitation Services Manual to determine the most appropriate job title from the BLS data to use as a proxy. PCG also collected national, and Michigan-specific salary data published on Glassdoor and Indeed. The project team calculated mean annual salaries using the mean hourly wage multiplied by 2,080 hours of work annually, representing a full-time 40-hour-a-week work schedule.

PCG utilized the national 75th percentile hourly wage from BLS for each job title identified and used in the rate build for each service type that the job title performed, such as a job coach performing on-the-job evaluations. This was selected based on a desire expressed by MRS leadership to provide rates that support and retain the highest quality provider staff in these positions by providing rates above the average market wages those individuals could otherwise pursue. The table below outlines each job title with corresponding values from the market salary analysis.

Table 2: Average Hourly Market Salaries by Job Title and Source

Michigan VR Job Titles	BLS National Average	BLS National 75 th Percentile	BLS MI Average	BLS Midwest Regional Average	Glassdoor Average	Indeed Average	Wage Selected for Rate Build
Benefits Plan Counselor	\$22.13	\$25.71	\$21.85	\$21.95	\$26.92	\$22.59	\$26.92
Employment Service Provider	\$20.00	\$22.66	\$17.35	\$18.85	\$19.71	\$28.97	\$22.66
Independent Living Specialist	\$22.13	\$25.71	\$21.85	\$21.95	\$19.23	\$18.31	\$25.71
Independent Living Specialist/ Employment Service Provider	\$21.07	\$24.19	\$19.60	\$20.40	\$18.75	\$17.25	\$24.19
Job Coach	\$20.00	\$22.66	\$17.35	\$18.85	\$18.26	\$17.27	\$22.66
Job Developer/Job Placement Specialist	\$20.00	\$22.66	\$17.35	\$18.85	\$20.19	\$17.27	\$22.66
Personal Assistant Services	\$14.87	\$16.40	\$13.91	\$14.85	\$15.38	\$14.90	\$16.40
Tutoring I	\$21.55	\$23.63	\$18.51	\$19.47	\$19.23	\$23.31	\$23.63
Tutoring II	\$30.35	\$36.91	\$30.99	\$26.71	\$31	\$23.95	\$36.91
Tutoring III & Adult Literacy or Remedial Training	\$31.95	\$38.74	\$25.20	\$27.53	\$27.40	\$21.95	\$38.74
Tutoring IV	\$35.73	\$43.16	\$32.92	\$30.77	\$30.29	\$33.05	\$43.16
Vocational Evaluator	\$30.87	\$36.82	\$28.27	\$28.24	\$23.56	\$22.59	\$36.82
Vocational Service Coordinator	\$20.00	\$22.66	\$17.35	\$18.85	\$20.19	\$22.59	\$22.66
VR Counselor	\$30.87	\$36.82	\$28.27	\$28.24	\$25.00	\$22.59	\$36.82

Hourly Benefits

The hourly fringe and benefits were calculated in the 2020 rate study using data from cost reports that service providers submitted based on fiscal year (FY) 2019 expenditures.³ The cost report asked for the salary and benefits paid for each staff person. It was identified that 35.6% of personnel costs for service providers go to fringe and benefits. In the 2023 rate refresh, this percentage was used as the hourly benefits input in the rate model build for each service type.

Hourly Other Personnel and Overhead Costs

In addition to hourly benefits, the 2020 rate study collected other personnel and overhead cost data in the cost reports collected from service providers. The cost report asked for several expenditure categories, such as mortgage, utilities, personal development, and taxes. This administration percentage came out to be 29.7%.

PCG conducted an additional rate study for Work-Based Learning Experiences (WBLE) during the time period of February to June 2023. This rate study provided the PCG team with additional cost data from service providers that is updated to the current time period considering post-Covid inflation factors that affect overhead costs such as mortgage, utilities, etc. The administration percentage identified in the 2023 WBLE rate study came out to be 43%. In alignment with the request from MRS leadership to provide a robust rate for services, PCG selected the administration percentage from the 2023 WBLE rate study as it provides additional funding for community providers to ensure that other personnel and overhead costs are robustly reimbursed.

The 2020 rate study included separate rates for services provided by independent operators (as compared to provider employees).⁴ However, MRS staff indicated that establishing a single rate per service type would be preferable, as independent operators also have overhead costs related to purchasing benefits. PCG's recommended rates for 2024 thus establish a single rate per service, regardless of the vendor's employment status.

Mileage

PCG's typical methodology for mileage considerations in the rate build is to use cost data on mileage from the cost reports collected from service providers. In the 2020 rate study, the mileage rate was calculated at \$1.94. In the 2023 rate refresh, the PCG team determined that benchmarking mileage costs against similar states and rate studies, and using the IRS mileage rate, would be the best approach. The mileage rate used for the 2023 rates is \$2.58.

Billable Direct Service Time

The 2020 rate study included a comprehensive time study measuring the amount of time that staff spent on direct service time. The results provided a billable percentage of direct service activities to apply to the rate methodology. MRS considers direct, billable services to be any time spent providing direct service activities. However, the amount of time spent on activities beyond direct services must be considered in the rate build-up methodology, as these are tasks that must happen for practitioners to adequately serve the needs of their clients. These indirect activities

³ All references to fiscal years in this memo are referring to Michigan's state fiscal year.

⁴ PCG's 2020 rate study included separate independent operator rates for two service types: personal assistance services and adult literacy or remedial training.

include tasks such as travel to/from sessions, training and professional development, and staff meetings.

The rate methodology used in 2020 calculated the percentage of time that each position title spent on each service type and multiplied that time by the mean hourly wage reported in the cost report. This type of calculation creates a blend of position titles for each service type based on the amount of time that those positions perform the service. This lends to each individual service type having their own billable percentage.

PCG's updated methodology calculates an average billable percentage at a higher aggregate level to account for small sample sizes in some calculations that were used in 2020. PCG created an index of position titles to group them based on the percentage of time spent on direct services, this created four different billable percentages: 90%, 74%, 54%, and 41%. The percentage was assigned to the service type based on position title. For example, based on the 2020 time study data, the time that job coaches spent on billable activities was combined with the other roles that had a similar billable percentage, which identified a 74% average billable percentage for those roles.

Two service types, Benefits Counseling and Customized Employment, received the lower billable percentage of 41% to accommodate more unbillable time required for items such as report writing and professional development/certifications, which are more burdensome requirements within those service categories than many other, superficially similar services.

PCG benchmarked the billable percentage for Tutoring and Adult Literacy or Remedial Training at 90% direct service time. These two service types have a low percentage of time spent on indirect services. PCG consulted with MRS on this decision to use this benchmark based on subject matter expertise. Pre-ETS services do not have billable percentages assigned since PCG is not updating the pre-ETS rates. This is more detailed below in the rate recommendation section. Table 3 includes the billable percentages utilized for each service type.

Table 3: Billable Percentages for Each Service Type

Service	Position Title	Billable %
Pre-ETS Counseling on Post-Secondary Training	Employment Service Provider	N/A
Pre-ETS Job Exploration Counseling	Employment Service Provider	N/A
Pre-ETS Self-Advocacy Training in Peer Mentoring	Employment Service Provider	N/A
Pre-ETS Work-Based Learning Experiences	Employment Service Provider	N/A
Pre-ETS Workplace Readiness Training	Employment Service Provider	N/A
Adult Literacy or Remedial Training	Employment Service Provider	90%
Tutoring I - IV	Tutor	90%
Job Coaching - Including Supported Employment	Job Coach	74%
Job Coaching During Eval	Job Coach	74%
On-the-Job Evaluation	Job Coach	74%
Personal Assistant Services	Personal Assistant/Personal Care Attendant	74%
Trial Work Experience	Job Coach	74%
Job Placement Follow-Up Services	Job Developer/Job Placement Specialist	74%
Vocational Evaluation/Testing	Vocational Evaluator	74%

Service	Position Title	Billable %
Counseling and Guidance	Independent Living Specialist	54%
Job Readiness Training	Job Coach	54%
Job Placement Assistance Services	Job Developer/Job Placement Specialist	54%
Job Shadowing	Job Developer/Job Placement Specialist	54%
Benefits Counseling	Benefits Plan Counselor	41%
Customized Employment - Discovery	Job Developer/Job Placement Specialist	41%
Customized Employment - Job Development/Placement	Job Developer/Job Placement Specialist	41%
Customized Employment - Consultative Employment Training & Support	Job Developer/Job Placement Specialist	41%

Cost Adjustment Factor

As described above, the rate calculations utilized FY22 BLS salary research. The rate models also include benchmark percentages pulled from the 2020 rate study cost data and time study data. PCG recommends MRS consider an inflation factor when determining the rates for the implementation year. For example, rates that would be implemented in FY24 instead of FY23 would require an additional markup to account for the increased cost that would have occurred between FY22 and FY24. There are several mechanisms and entities that track and can help account for inflation; PCG recommends using the Consumer Price Index (CPI) made available by BLS for urban consumers. PCG used the BLS CPI-U for the United States—Midwest (Michigan’s BLS Region) to calculate a five-year average annual percent change (3.07%). The CPI-U Midwest contains costs for the broadest category of consumer goods, including fuel and energy expenses for individuals in urban areas in the Midwest. This cost adjustment factor (CAF) is applied to the rates for a series of potential rate implementation years.

Table 4: Inflation Over Time

FY	Annual Change	Annual Change %
FY18-FY19	2.445	1.04%
FY19-FY20	-1.745	-0.73%
FY20-FY21	10.878	4.58%
FY21-FY22	18.057	7.21%
FY22-FY23	9.254	3.27%
	5-Year Average	3.07%

Table 5: Inflation Factorization

Calendar Year	Five-Year Average
2021	100.00%
2021	103.07%
2023	106.24%
2024	109.51%

The above tables outline the CPI-U five-year average inflationary increase in the Midwest region of the United States. The rate recommendations apply the 109.51% increase to the base rate in column “FY24 CAF Rate.”

Fiscal Impact Analysis

PCG conducted a fiscal impact analysis reviewing MRS service trends in FY23 and applying a comparable volume using recommended rates. On average, the proposed rates represent a 52% increase over the current rates, before inflation is applied. When factoring in inflation for a FY24 implementation, these proposed rates represent a 54% increase over the current FY23 rates. See Table 6 for the fiscal impact analysis based on FY23 service utilization and actual spending.

Table 6: Fiscal Impact Analysis Based on Actual FY23 Expenditures and Service Utilization

Fiscal Year	Total \$
FY23 Expenditures (actual)	\$11,959,195.43
FY23 Expenditures With Proposed Rate Structure (estimated)	\$24,909,859.68
\$ Difference	\$12,950,664.25
% Difference	51.99%
FY23 Expenditures (actual)	\$11,959,195.43
FY24 Expenditures With Proposed Statewide Rates (estimated)	\$26,457,290.11
\$ Difference	\$14,498,094.68
% Difference	54.80%

Due to inflation occurring after the 2020 rate study, MRS published an updated fee schedule in April 2023 that applied an inflation factor to the 2020 rates. The table below shows the fiscal analysis of the MRS FY23 expenditures would have been if the rates MRS implemented in April 2023 were applied to the entirety of FY23. On average, the proposed rates represent a 37% increase over the rates MRS implemented in April 2023. When factoring in inflation for a FY24 implementation, these proposed rates represent a 41% increase over the April 2023 published rates. (See

Table 7 for the fiscal impact analysis based on the full year of MRS April 2023 rates and service utilization.)

Table 7: Fiscal Impact Analysis Based on a Full Year of MRS April 2023 Rates and Service Utilization

Fiscal Year	Total \$
FY23 Total	\$15,521,255.79
FY23 Expenditures With Proposed Rate Structure (estimated)	\$24,909,859.68
\$ Difference	\$9,388,603.88
% Difference	37.69%
FY23 Total	\$15,521,255.79
FY24 Expenditures With Proposed Statewide Rates (estimated)	\$26,457,290.11
\$ Difference	\$10,936,034.32
% Difference	41.33%

Table 8 shows the combined units and expenditures for both individual and group services in FY22 and FY23 for the five federally mandated pre-ETS services and job readiness training. As seen below, from FY22 to FY23, there has been a decrease in spending on pre-ETS services but a steady increase in service spending on job readiness training.

Table 8: Individual and Group Services Combined Units and Spending

Service	FY22 Units	FY22 Expenditures	FY23 Units	FY23 Expenditures	% Difference
Pre-ETS Counseling on Post-Secondary Training	1,433	\$272,758.70	7,181	\$253,555.68	-7.57%
Pre-ETS Job Exploration Counseling	4,252	\$955,268.11	25,094	\$943,580.74	-1.24%
Pre-ETS Self-Advocacy Training in Peer Mentoring	4,349	\$1,197,753.70	16,612	\$510,038.04	-134.84%
Pre-ETS Work-Based Learning Experiences	64,107	\$5,317,279.55	4,1238	\$1,031,560.37	-415.46%
Pre-ETS Workplace Readiness Training	21,633	\$5,268,971.00	58,360	\$1,651,120.52	-219.11%
Job Readiness Training	3,740	\$106,664.00	30,871	\$981,716.00	89.13%

Figure 2 shows MRS spending trends from FY22, the calculated FY23 spending based on a full year of MRS April 2023 rates, and FY24 proposed spending based on PCG's recommended rates and FY23 units. Based on PCG's calculations, MRS's proposed fiscal impact based on recommended rates and FY23 units is \$26,457,290.11.

Figure 2: MRS Expenditures

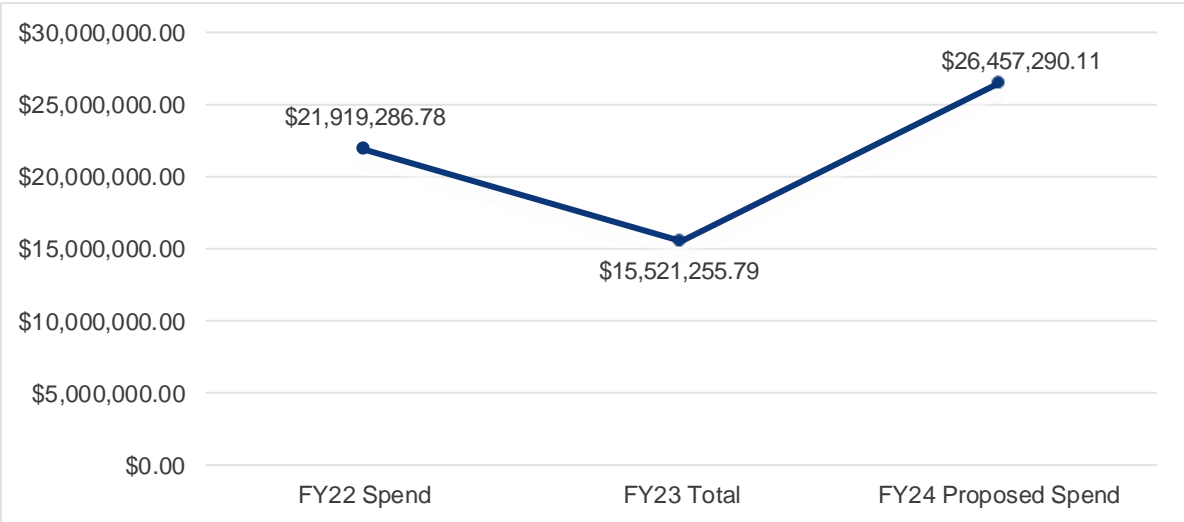
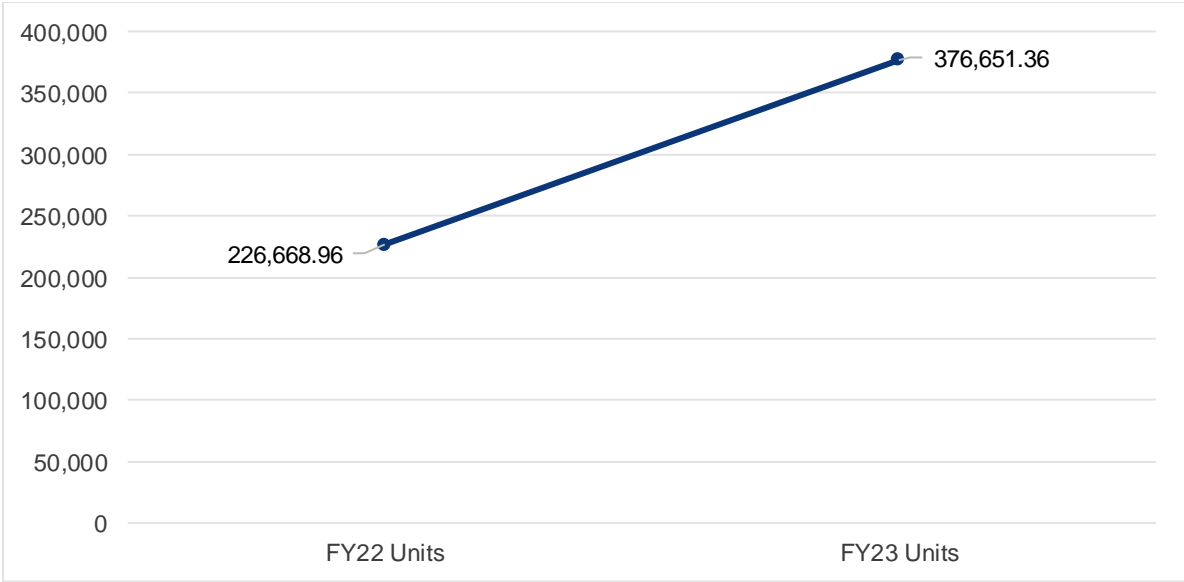


Figure 3 shows the total number of units for services provided. As shown in the table, the total number of service units provided increased by 149,982.40 units from FY22 to FY23. This represents an increase of 39.82% within a single fiscal year.

Figure 3: Total Units



Recommendations

Based on the information presented above, PCG makes the following recommendations for MRS consideration. The recommendations address issues identified in vendor rates, communication, and administration.

Rate Enhancements

Recommendation 1: Rate methodology for appropriate and competitive compensation

Based on the methodology and calculations described above, PCG recommends the following rates for FY24 implementation. (See Table 9.) The table below includes the calculated billable hourly statewide rate, the rate cycle, and the calculated FY24 proposed rate. These recommendations are intended to be used as guidance, and MRS may accept all, some, or none of the rates. PCG will provide a rate workbook in an Excel document that includes the formulas and rate model builds for each service type, as well as the market salary research for each position title. This will allow MRS staff to adjust specific rate components for specific services and understand their impact on overall rates and spending, without fundamentally altering the methodology used to establish the rate. In addition, PCG will develop a user-friendly tool in the workbook that can be used by MRS staff as needed for future rate updates. This will include instructions for how to conduct market salary analysis and update the CPI-U percentage. (See Appendix D for the full rate table.)

Table 9: Recommended Fiscal Year 2024 Rates

Michigan Rehabilitation Services	MRS Fee Schedule 04/01/23	Calculated Billable Hour Cost - Statewide	FY24 CAF Rate
Individual Rates			
Adult Literacy or Remedial Training	\$52.83	\$80.23	\$87.85
Benefits Counseling	\$89.45	\$128.86	\$141.12
Counseling and Guidance	\$70.52	\$93.49	\$102.39
Customized Employment - Consultative Employment Training & Support	\$73.78	\$108.72	\$119.05
Customized Employment - Discovery	\$73.78	\$108.72	\$119.05
Customized Employment - Job Development/Placement	\$73.78	\$108.72	\$119.05
Job Coaching - Including Supported Employment	\$40.79	\$60.18	\$65.90
Job Coaching During Evaluation	\$40.79	\$60.18	\$65.90
Job Placement Assistance Services	\$67.97	\$82.55	\$90.41
Job Placement Follow-Up Services	\$50.40	\$60.23	\$65.96
Job Readiness Training	\$62.45	\$82.54	\$90.39
Job Shadowing	\$75.08	\$82.55	\$90.41

Michigan Rehabilitation Services	MRS Fee Schedule 04/01/23	Calculated Billable Hour Cost - Statewide	FY24 CAF Rate
On-the-Job Evaluation	\$52.76	\$60.18	\$65.90
Personal Assistant Services	\$35.05	\$43.79	\$47.96
Pre-ETS Counseling on Post-Secondary Training	\$87.70	\$87.70	\$87.70
Pre-ETS Job Exploration Counseling	\$87.70	\$87.70	\$87.70
Pre-ETS Self-Advocacy Training in Peer Mentoring	\$87.70	\$87.70	\$87.70
Pre-ETS Work-Based Learning Experiences	\$58.94	\$87.70	\$87.70
Pre-ETS Workplace Readiness Training	\$71.78	\$87.70	\$87.70
Trial Work Experience	\$52.76	\$60.18	\$65.90
Tutoring I	\$22.06	\$51.62	\$56.52
Tutoring II	\$29.38	\$80.23	\$87.85
Tutoring III	\$36.73	\$84.17	\$92.17
Tutoring IV	\$51.44	\$93.69	\$102.60
Vocational Evaluation/Testing	\$75.08	\$97.34	\$106.59

Michigan Rehabilitation Services	MRS Fee Schedule 04/01/23	Calculated Billable Hour Cost – Statewide	FY24 CAF Rate
Group Rates (2 or more customers)			
Pre-ETS Counseling on Post-Secondary Training	\$46.52	\$46.52	\$46.52
Pre-ETS Job Exploration Counseling	\$46.52	\$46.52	\$46.52
Pre-ETS Self-Advocacy Training in Peer Mentoring	\$46.52	\$46.52	\$46.52
Pre-ETS Workplace Readiness Training	\$38.08	\$46.52	\$46.52
Job Readiness Training	\$33.13	\$41.27	\$45.20
Pre-ETS Work-Based Learning Experiences	\$31.27	\$46.52	\$46.52

* Pre-ETS service rates are remaining the same from the rate update released by MRS on April 2023.
 ** Job readiness training group rates reflect a methodology of taking half the individual rate for the service.

Communication

Recommendation 2: Quarterly meetings between MRS leadership and vendors

Based on the feedback provided at the vendor town halls, PCG recommends that MRS institute quarterly meetings between MRS district and/or state leadership and vendors. These meetings will aim to make vendors feel involved in policy and decision making; stay up to date on any policy changes; and help to ensure that consistent information is provided statewide. The meetings could also serve to provide clarity and understanding on items of interest to vendors, including how travel time is compensated. Meeting summaries or minutes could be shared via the vendor listserv so that vendors who are unable to attend a meeting receive the same information. One vendor at a town hall also suggested that a vendor portal could be helpful for sharing information statewide. If established, a vendor portal could also house information on rates and other policies, as well as a listing of frequently asked questions.

Administration

Recommendation 3: Incentivizing better services and outcomes

To further address vendors’ concerns regarding the rates as well as to create incentives around providing high-quality services, PCG recommends that over the next year MRS explore establishing enhanced rates tied to vendor credentials or client outcomes. In the town hall meetings, vendors expressed concern regarding the lack of required credentials for some vendor types. MRS could consider developing enhanced rates based on a vendor’s years of experience or level of education (including type/number of certifications). Alternatively, enhanced rates or incentive payments could be tied to client outcomes, which would encourage high-quality services regardless of provider experience or credentials. Examples of similar programs developed by peer states are included in Appendix C.

Recommendation 4: Future rate changes

To monitor the need for rate changes in subsequent years, PCG recommends that MRS consider creating a standing rate review workgroup that consists of both MRS staff and vendors. The workgroup could recommend a process and schedule for reviewing and revising rates. The recommended schedule and process could include items such as cost adjustment factors to use, which services are reviewed on what schedule, which circumstances would initiate a rate review outside of the regular schedule, sources of data to be used in the review (e.g., MRS authorization data, a time study, vendor financial reports, and market salary analyses).

Recommendation 5: Consistency in policies and procedures

Based on the feedback from vendors, PCG recommends that MRS explore developing comprehensive statewide policies related to many of the issues of concern amongst vendors. The development of forms and assessments to be used statewide could help reduce the confusion and administrative burden experienced by vendors. The forms and assessments could be included in MRS policy to both require their use by VR counselors and to ensure they are publicly available. A statewide policy manual that includes information such as rates, service caps, authorization requirements, and vendor forms could further help with inconsistencies experienced by vendors working across district offices. It could also be helpful to include contact information for MRS staff at both the district and state level so vendors are informed as to who they can contact with questions and concerns.

To ensure the needs of vendors are being addressed, it would also be important to include the input from vendors in the policy development process. This could be done through a period of public comment or through the establishment of a workgroup to review drafts prior to finalization. It will also be important to clearly communicate any updates to both counselors and vendors. The policies, procedures, and any subsequent updates could be included in the vendor portal referenced in Recommendation 2.

Recommendation 6: Innovative practices and job site development

Another aspect addressed by vendors is that the hourly rate structure does not allow them to be compensated for administrative efforts, such as developing innovative practices or building relationships with employers. To address this, PCG recommends that MRS consider how to extend and expand communication and collaboration with the Business Network Division and to foster relationship development, both among vendors (to support a greater degree of collaboration and innovation) as well as between vendors and employers.

APPENDICES

Appendix A: Town Hall Vendor Questions

1. If you are interested in having regular meetings with MRS district and/or state leadership, how frequently would you like these meetings to occur? *[Monthly, bimonthly, quarterly, every six months, not interested in regular meetings with MRS leadership]*
2. What topics would you like discussed at these meetings (e.g., rates, policies, procedures, invoicing/payment)? *[open ended]*
3. Please indicate how strongly you agree or disagree with the following statement: MRS policies and procedures support vendor creativity and innovation in service delivery. *[Strongly agree, agree, disagree, strongly disagree]*
4. How could creativity/innovation in service delivery be improved? *[open ended]*
5. Do you feel that the forms for service authorizations, submitting reports, and submitting invoices are consistent from office to office within a district? *[open ended]*
 - a) If not, what are the effects of this inconsistency? *[open ended]*

Appendix B: Peer State Service Rates and Fees

The table below provides the rates and benchmark-based fees paid for each comparable service by the six peer states as compared to Michigan. Michigan was only state reviewed that provides adult literacy or remedial training, counseling and guidance, personal care assistant services, and tutoring services; these services are not included in the table.

Table 10: Peer State Service Rates^{1,2}

	Hourly Rates						Benchmark-Based Fees				
	Michigan	Colorado	Indiana	Florida	New York	Texas	Wisconsin	Florida	Texas	Colorado	New York
Trial Work Experience	\$52.76		\$50.00			\$50.00					
On-the-Job Evaluation	\$52.76	\$41.00			\$75.00		\$800.00	\$850.00	\$1,259.00		
Job Coach During Evaluation	\$40.79		\$50.00	\$50.00	\$61.00						
Job Shadowing	\$75.08						\$150.00- \$200.00				
Benefits Counseling	\$89.45	\$100.00			\$53.00		\$400.00	\$850.00	\$113.00		
CE Discovery	\$73.78	\$100.00	\$50.00				\$1,000.00	\$3,000.00			
CE Placement Activities	\$73.78	\$53.00	\$50.00	\$50			\$1,800.00				
Job Development/ Placement Assistance	\$67.97		\$50.00				\$1,600.00	\$400.00	\$1,722.00	\$600.00	\$775.00
Pre-ETS—Post Secondary	\$87.70	\$33.00- \$50.00	\$50.00		\$96.00	\$72.00	\$300.00				
Pre-ETS—Post Secondary, Group Rates 1:6 or fewer	\$46.52	\$26.00/ student ³									
Pre-ETS—Job Exploration	\$87.70	\$33.00- \$50.00	\$50.00		\$96.00	\$72.00	\$300.00	\$850.00			
Pre-ETS—Job Exploration, Group Rates 1:6 or fewer	\$46.52	\$26.00/ student ³									
Pre-ETS—Self Advocacy	\$87.70	\$33.00- \$50.00	\$50.00	\$50.00	\$96.00	\$72.00	\$300.00				

Pre-ETS—Self Advocacy, Group Rates	\$46.52	\$20.00- \$26.00/ student ³								
Pre-ETS—Workplace Readiness	\$71.78	\$30.00- \$50.00	\$50.00		\$60.00	\$72	\$300.00	\$850.00		
Pre-ETS—Workplace Readiness, Group Rates, 1:6 or fewer	\$38.08	\$26.00/ student ³								
Pre-ETS Work-Based Learning Experiences	\$58.94					\$72				
Job Readiness Training	\$62.45		\$50.00		\$60.00					
Job Coaching—Non-Supported Employment	\$40.79	\$55.00	\$50.00	\$50.00						
Job Coaching - Including Supported Employment	\$40.79	\$65.00	\$50.00	\$50.00			\$1,100.00/ month		\$1,280.00	\$600

¹ The orange cells are services that are not offered in that particular state.

² The grey cells are services that are paid via the other reimbursement type (i.e., benchmarks vs. hourly rates).

³ Colorado's group rates are per hour, per student.

Appendix C: Peer State Incentive and Bonus Payment Options

The tables below provide examples of how other states have implemented incentive and bonus payments among their VR providers. Table 11 shows how Missouri, Tennessee, Washington, and Wisconsin use different types of payments to financially incentivize providers to achieve certain targets for clients (e.g., wages, hours worked, employer benefits, and speed of finding employment) and support providers who make an extra effort to help consumers find and retain their employment.

Table 11: Job Retention Payments in Selected Other States

States	Closures
Missouri	<ul style="list-style-type: none"> • 90-day retention for regular and IPS: \$2,400 • Customized employment—90-day employment: \$1,700
Tennessee	<ul style="list-style-type: none"> • Job retention for 90 days for job placement services (non-supported employment) <ul style="list-style-type: none"> ○ \$ 1,695 for Category 1 & 2 ○ \$ 1,356 for Category 3 & 4
Washington	<ul style="list-style-type: none"> • Job retention – disability levels <ul style="list-style-type: none"> ○ Level 1 - \$1,656 ○ Level 2 - \$2,741 ○ Level 3 - \$3,551 ○ Level 4 - \$4,464
Wisconsin	<ul style="list-style-type: none"> • \$500-\$1,600 per month in the first two months, and \$600 in third month

Source: Tennessee Department of Human Services, 2011; Alveshare, 2022; Clause, 2022; Wisconsin Division of Vocational Rehabilitation, 2022.

Table 12 shows incentive payments in place in Indiana, Kentucky, New York, Ohio, Tennessee, Washington, and Wisconsin designed to encourage job placements with higher wages, more hours of work, and employer-provided benefits, or to reach underserved areas of the state. There are three notable approaches:

1. Indiana, Tennessee, and Washington pay bonus payments to a community rehabilitation program (CRP) if a client starts a job at more than 30 hours per week and/or the job has employer-provided health care benefits.
2. Ohio and Wisconsin provide retention payments at three different points in the retention period after a client obtains a job, rather than a single payment at the end of a specified period of employment.
3. Washington pays mileage and travel time reimbursements for travel to locations farther than 50 miles from the closest VR office.
4. Wisconsin pays additional funds for a participant finding a job within 90 days of the original job placement purchase order. Ninety days is considerably less than the national VR average of 120-180 days.

Table 12: Bonus Payment and Incentive Payments

States	Bonus Payments and Incentives
Indiana	<ul style="list-style-type: none"> • Performance incentive payments based on the number of criteria met by each customer <ul style="list-style-type: none"> ○ Criteria: <ul style="list-style-type: none"> ▪ Hourly wage - \$15.78/hour, or more ▪ Weekly hours worked—30 hours/week or more ▪ Employer-provided health insurance is available to the participant ○ Payments <ul style="list-style-type: none"> ▪ One criterion met: \$226 ▪ Two criteria met: \$791 ▪ Three criteria met: \$1,356
Kentucky	<ul style="list-style-type: none"> • A \$1,000 per consumer bonus if the consumer works a minimum of 20 hours per week and at or above 52% of the average hourly earnings of all employed individuals in the state
New York	<ul style="list-style-type: none"> • A \$550 incentive for the CRP based upon the hourly rate of pay worked by the participant in the four weeks prior to case closure. The participant, at a minimum, must earn \$17/hour in Region 1 and \$15.70/hour in Regions 2 and 3
Ohio	<ul style="list-style-type: none"> • Retention payments at 30, 60, and 90 days; at each milestone, the CRP receives \$426.90 • Bonus payments of \$836.40 for a Rapid Job Placement (within 90 days of start of job search activities)
Tennessee	<ul style="list-style-type: none"> • A payment of \$565 after 90 days of employment at a minimum of \$12/hour and 30 hours per week • A payment of \$226 if the job has employer-provided medical insurance • If a client loses a job after VR closes the case and the CRP finds the client another job, VR pays the CRP \$750
Washington	<ul style="list-style-type: none"> • Travel time reimbursed at \$35/hour for meeting a client at a location farther than 50 miles from the nearest staffed office location • Mileage – if location is farther than 50 miles from nearest staffed office location • A payment of \$722 if participant has competitive, integrated employment (CIE), at least 30 hours per week that includes employer-provided health benefits • A payment of \$722 if participant gets a CIE job as a secondary outcome of a Community-Based Assessment • A payment of \$722 if CIE job has employer-provided benefits and a secondary outcome of a Community-Based Assessment • A \$375 Rural Area Bonus if the customer lives in a rural area and obtains a permanent, competitive, and integrated job • A \$375 Rural Area Bonus if the customer obtains a permanent, competitive, and integrated job in a rural area
Wisconsin	<ul style="list-style-type: none"> • A \$1,900 Rapid Hire incentive payment if the customer's hire date is within 90 days of original job development purchase order • A payment of \$500/month in the first two months, and \$1,200 in the third month for at least 35 hours per week of employment with employer-provided health benefits, or at least 35 hours per week and at least \$12/hour

In addition to the bonus and incentive payments listed above, Wisconsin has implemented an innovative program to develop ongoing on-the-job natural supports provided by another employee while the CRP gradually reduces its support for the client. Under the state's Partners in Business program, the CRP receives the normal rate for monitoring the job placement and Wisconsin DVR reimburses the employer for their employee's time supporting the client on the job. In the first

month, the provider receives a \$1,075 payment if the client remains on the job and the provider supplies the required reports to Wisconsin DVR. Wisconsin DVR receives an invoice from the employer for the employee's time and reimburses the employer. In the following months, the provider receives \$375 each month that the client is on the job and the provider supplies the required reports. For each month, the employer submits an invoice for their employee's time and Wisconsin DVR reimburses the employer.

Appendix D: Rate Build Table

The table below is a compilation of the rate tables included in the report. The rate build table includes the services, position titles, payment cycle, and the hourly rates that went into calculating the recommended rates for FY24.

Table 13: Rate Build Table

Michigan Rehabilitation Services	Position Title Performing Service	2020 Rate Study	MRS Fee Schedule 04/01/23	Payment Cycle	Hourly Salary for Models	Calculated Billable Hour Cost - Statewide	FY24 CAF Rate	% Increase or Decrease from 04/23
Individual Rates								
Adult Literacy or Remedial Training	Tutor	\$47.76	\$52.83	Hour	\$36.91	\$80.23	\$87.85	66.30%
Benefits Counseling	Benefits Plan Counselor	\$80.86	\$89.45	Hour	\$26.92	\$128.86	\$141.12	57.76%
Counseling and Guidance	Independent Living Specialist	\$63.75	\$70.52	Hour	\$25.71	\$93.49	\$102.39	45.19%
Customized Employment - Consultative Employment Training & Support	Job Developer/Job Placement Specialist		\$73.78	Hour	\$22.66	\$108.72	\$119.05	61.36%
Customized Employment - Discovery	Job Developer/Job Placement Specialist	\$66.70	\$73.78	Hour	\$22.66	\$108.72	\$119.05	61.36%
Customized Employment - Job Development/Placement	Job Developer/Job Placement Specialist	\$66.70	\$73.78	Hour	\$22.66	\$108.72	\$119.05	61.36%
Job Coaching - Including Supported Employment	Job Coach	\$36.88	\$40.79	Hour	\$22.66	\$60.18	\$65.90	61.57%
Job Coaching During Evaluation	Job Coach	\$36.88	\$40.79	Hour	\$22.66	\$60.18	\$65.90	61.57%
Job Placement Assistance Services	Job Developer/Job Placement Specialist	\$61.45	\$67.97	Hour	\$22.66	\$82.55	\$90.41	33.01%
Job Placement Follow-Up Services	Job Developer/Job Placement Specialist	\$45.57	\$50.40		\$22.66	\$60.23	\$65.96	30.88%
Job Readiness Training	Job Coach	\$56.45	\$62.45	Hour	\$22.66	\$82.54	\$90.39	44.74%
Job Shadowing	Job Developer/Job Placement Specialist	\$67.87	\$75.08	Hour	\$22.66	\$82.55	\$90.41	20.41%
On-the-Job Evaluation	Job Coach	\$47.69	\$52.76	Hour	\$22.66	\$60.18	\$65.90	24.91%
Personal Assistant Services	Personal Assistant/Personal Care Attendant	\$31.68	\$35.05	Hour	\$16.40	\$43.79	\$47.96	6.82%

Michigan Rehabilitation Services	Position Title Performing Service	2020 Rate Study	MRS Fee Schedule 04/01/23	Payment Cycle	Hourly Salary for Models	Calculated Billable Hour Cost - Statewide	FY24 CAF Rate	% Increase or Decrease from 04/23
Pre-ETS Counseling on Post-Secondary Training	Employment Service Provider	\$79.28	\$87.70	Hour		\$87.70	\$87.70	0.00%
Pre-ETS Job Exploration Counseling	Employment Service Provider	\$79.28	\$87.70	Hour		\$87.70	\$87.70	0.00%
Pre-ETS Self-Advocacy Training in Peer Mentoring	Employment Service Provider	\$79.28	\$87.70	Hour		\$87.70	\$87.70	0.00%
Pre-ETS Work-Based Learning Experiences	Employment Service Provider	\$53.28	\$58.94	Hour		\$87.70	\$87.70	48.80%
Pre-ETS Workplace Readiness Training	Employment Service Provider	\$64.88	\$71.78	Hour		\$87.70	\$87.70	22.18%
Trial Work Experience	Job Coach	\$47.69	\$52.76	Hour	\$22.66	\$60.18	\$65.90	24.91%
Tutoring I	Tutor	\$19.95	\$22.06	Hour	\$23.63	\$51.62	\$56.52	156.23%
Tutoring II	Tutor	\$26.55	\$29.38	Hour	\$38.74	\$80.23	\$87.85	199.01%
Tutoring III	Tutor	\$33.20	\$36.73	Hour	\$36.91	\$84.17	\$92.17	150.94%
Tutoring IV	Tutor	\$46.50	\$51.44	Hour	\$43.16	\$93.69	\$102.60	99.46%
Vocational Evaluation/Testing	Vocational Evaluator	\$70.03	\$75.08	Hour	\$36.82	\$97.34	\$106.59	41.97%
Group Rates (2 or more customers)								
Pre-ETS Counseling on Post-Secondary Training	Employment Service Provider		\$46.52	Hour		\$46.52	\$46.52	0.00%
Pre-ETS Job Exploration Counseling	Employment Service Provider		\$46.52	Hour		\$46.52	\$46.52	0.00%
Pre-ETS Self-Advocacy Training in Peer Mentoring	Employment Service Provider		\$46.52	Hour		\$46.52	\$46.52	0.00%
Pre-ETS Workplace Readiness Training	Employment Service Provider		\$38.08	Hour		\$46.52	\$46.52	22.16%
Job Readiness Training	Job Coach		\$33.13	Hour		\$41.27	\$45.20	36.42%
Pre-ETS Work-Based Learning Experiences	Employment Service Provider		\$31.27	Hour		\$46.52	\$46.52	48.77%