



**Commonwealth of Massachusetts**  
Executive Office of Health and Human Services

**Chapter 257 of the Acts of 2008**  
**Implementation Status Update**  
**January 2009**



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CHAPTER 257 IMPLEMENTATION STATUS UPDATE FOR DECEMBER:  
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This document serves as the December report regarding the status of implementation of Chapter 257 of the Acts of 2008.

*Section 13 of Chapter 257 reads: Notwithstanding any special or general law to the contrary, on or before December 1, 2008, the secretary of health and human services shall submit a report to the governor, the secretary of administration and finance, the joint committee on children, families and persons with disabilities, the joint committee on health care financing, the senate and house committees on ways and means, and the clerks of the senate and the house of representatives, regarding available resources and a plan for resource allocation within the executive office of health and human services. This report shall include a plan for the reassignment of resources from other state agencies and authorities to the executive office of health and human services as may be necessary to satisfy the requirements of section 7 of chapter 118G of the General Laws, and shall identify potential efficiencies and cost savings and any legislative action necessary to facilitate realizing such efficiencies and savings.*

EOHHS offers this report in response to Section 13.

## I. Executive Summary

The Purchase of Service (POS) system within the Executive Office of Health and Human Services requires reform. Specific factors that currently limit the efficiency and effectiveness of the POS system include:

- Multiple contracts within and across agencies with the same providers;
- Similar services purchased individually by agencies and regions;
- Decentralized – and hence non-standard – development of reimbursement rates, service definitions, and procurements; and
- Low wages paid to direct care workers in comparison to workers in other sectors;

Chapter 257 places authority for the determination of reimbursement rates for social service programs with the Division of Health Care Finance and Policy. Currently, purchasing departments often negotiate reimbursement rates for human and social services individually and in a de-centralized manner. Rates of reimbursement have not always been based on an analysis of cost and value, do not always align with clear performance and quality benchmarks, and often are not adjusted to account for changes in efficient costs over time.

Further, given the degree to which agencies purchase similar services from the same providers, a confusing web of reimbursement, contracting, and reporting timelines and requirements exists today. There is significant opportunity to reform both the EOHHS approach to reimbursement rate determination as well as procurement and contract management in a way that yields benefits for both providers of human services and EOHHS departments. Ultimately, these reforms will also result in improved quality of services and care to consumers.

Chapter 257 sets forth a four-year implementation plan:

- HCFP must re-determine rates for 10% of the \$2.7B POS system by FY10

- An additional 40% of the system must be addressed by FY11
- An additional 30% of the system must be addressed by FY12
- Remaining segments of the system must be addressed by FY13

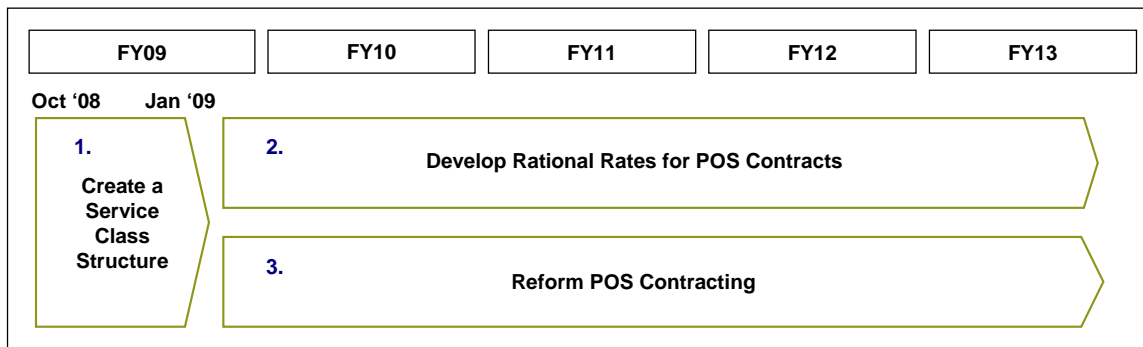
In order to implement Chapter 257 according to this timeframe, EOHHS must pursue three strategies over a four year period. In partnership with agencies and providers, EOHHS must re-define current services into a consistent service classification system, must align pricing with this classification system, and streamline contracting to implement the new pricing approach. These strategies are summarized in more detail in the table below.

### Chapter 257 Required Implementation Strategies

Strategy	Description
<b>1. Create a Standard POS Service Classification System</b>	<ul style="list-style-type: none"> <li>• The current system of POS program and pricing development has resulted in highly varied, non-standard service definitions that make cross-Secretariat management of rates and outcomes infeasible. In order to implement Chapter 257 EOHHS and purchasing departments must first develop a new classification system for POS services that establishes common definitions and criteria and has utility across purchasing departments.</li> <li>• This classification system will be comprised of service classes defined by target population, general program purpose, service setting, and scope and bundling of service elements.</li> </ul>
<b>2. Develop Rational Rates for POS Contracts</b>	<ul style="list-style-type: none"> <li>• Once POS programs and services have been re-organized into a standard classification system, DHCFP will begin analysis and development of reimbursement rates or rate schedules that align with cross-agency service classes and reflect necessary cost differences driven by specific agency needs, geographic locations, population differences, or other factors.</li> <li>• A rational rate-setting methodology by service class will ensure transparent reimbursement among providers, and will enable agencies, consumers, and families to compare the outcomes achieved by different providers.</li> </ul>
<b>3. Reform POS Contracting</b>	<ul style="list-style-type: none"> <li>• In parallel with rate reform efforts, EOHHS will streamline contracting, invoicing, and reporting. Much of this will center on reducing the use of cost reimbursement contracts and establishing new, Secretariat-wide master agreements.</li> <li>• As POS service classes are priced according to the Chapter 257 mandate, most will be re-procured on cross-Secretariat Master Agreements that allow ease of purchasing and amendment management for both departments and providers.</li> <li>• An updated infrastructure will simplify outcomes reporting and enable agencies to connect this reporting to invoicing and/or payments for services.</li> </ul>

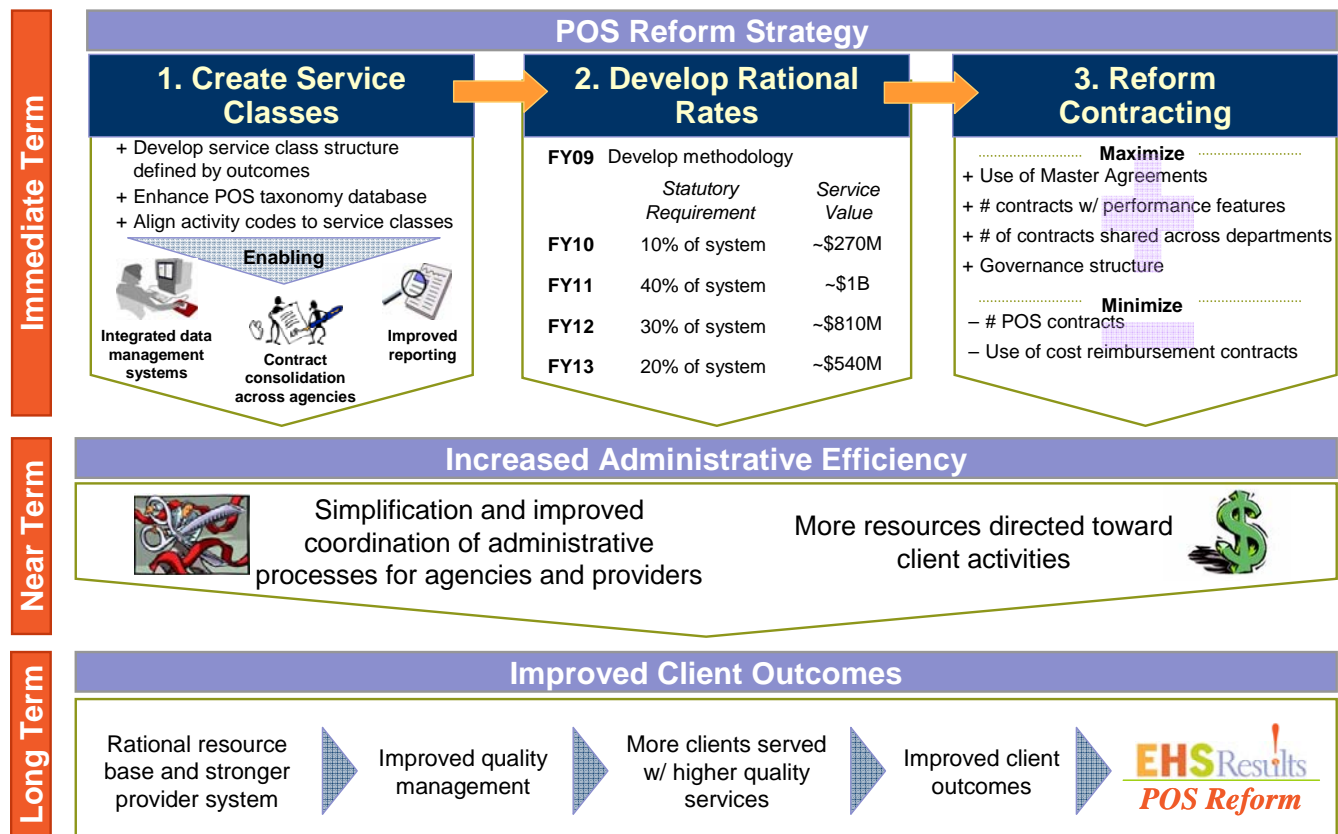
The new POS service classification system will be completed in January 2009 and serve as the foundation for the POS Reform. Once this is completed, the POS Policy Office, in conjunction with the Division of Health Care Finance and Policy (DHCFP), will begin the rate re-determination process, in accordance with the schedule set forth in Chapter 257. In order for new rates and rate schedules to be fully implemented, a simultaneous effort to reform the current contracting process must occur. The three POS Reform strategies and their associated timing are depicted in the graphic below.

### Timeline for Chapter 257 Implementation Strategies



Over this timeframe EOHHS' implementation strategy will reduce contract complexity and redundancy; allow greater purchasing flexibility; improve consistency of services and tracking of POS programs; and enhance accountability for POS providers. These improvements will allow EOHHS to purchase services with increased administrative efficiency, and will lead to improved outcomes for clients.

### Chapter 257: Final Result - Improved Client Outcomes



## II. Background

EOHHS and its agencies purchase over \$2.75 billion annually in services from this “Purchase of Service” (POS) system, which in turn delivers care and support to over one million Commonwealth residents. Today, there are more than 1,100 health and human service provider organizations that deliver care under Commonwealth contracts, and nearly half depend on Commonwealth sources for over 50% of their revenue.

Currently, the POS system presents clear management challenges to EOHHS, agencies and providers. Multiple contracts exist within and across agencies utilizing the same providers, often with similar services being purchased by agencies and regions with limited cross-agency coordination. Also, a decentralized, non-standard development of reimbursement rates often occurs, with varying service definitions and procurements. The implementation of Chapter 257 must address these issues in a formal manner.

Changes to some of the Commonwealth’s current rate development, administrative and contract management practices have great potential to address many of the challenges EOHHS and providers face. Benefits include a reduction in the thousands of individually negotiated contracts, streamlining services with core similarities, reducing contract complexity and inconsistent rate setting practices, allowing for greater amendment flexibility, increasing opportunities for provider engagement, and streamlining procurement cycles through central management.

Three strategies are required to reform the system:

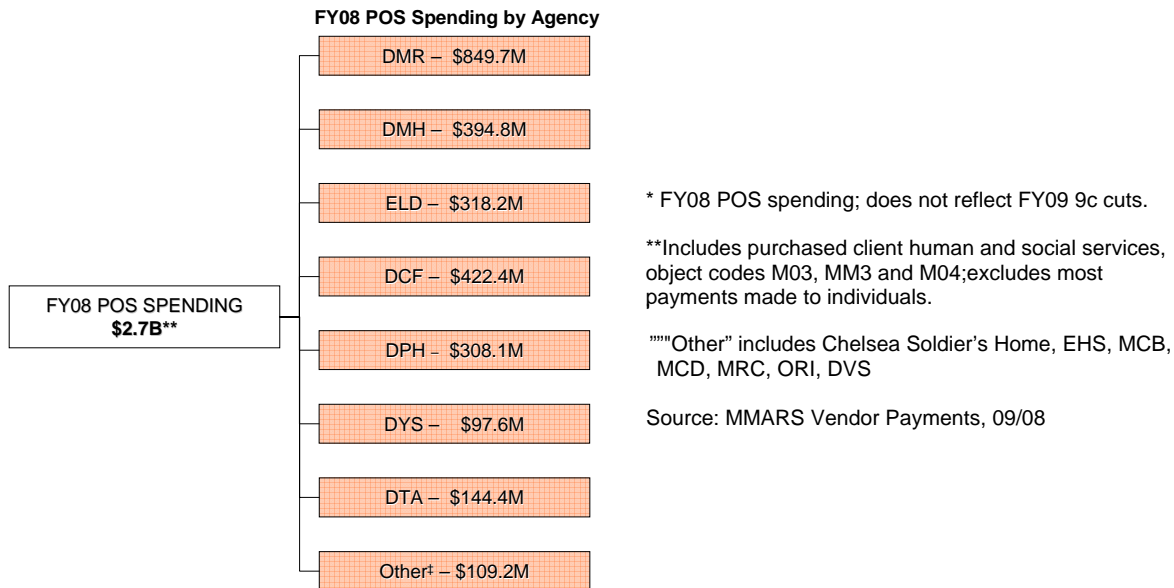
1. Create a standard POS Service Classification System.
2. Develop rational rates for POS contracts.
3. Reform POS contracting.

In the future, a standard POS Service Classification system across EOHHS will facilitate a centralized rate development and cost analysis process, streamlined approach to coordinating purchasing, pricing, and contracting across departments, and a wider use of streamlined, cross-Secretariat Master Service Agreements.

With the enactment of Chapter 257 and the successful implementation of these three required strategies for implementation, EOHHS will accelerate reform efforts.

## III. Current Resource Allocation: Administrative and Program

Across the sixteen agencies, EOHHS had programmatic budgets for FY08 Purchase of Service that reached \$2.7 billion. An overview of the individual POS spending by agency is provided below.



This programmatic breakdown of resources has an associated administrative resource allocation as well. The resource allocation plan for Chapter 257 referenced in Section 13 of Chapter 257 requires completion of the service classification system, cost analysis on services, and service re-procurement. These activities necessarily take place over a four year timeframe.

EOHHS will report on whether the reassignment of resources from other state agencies and authorities will be necessary to achieve the requirements of Chapter 257, and if so, what the reallocation plan will be, in the required six month reports referenced in Section 24A.

*Section 24A reads: Every 6 months, the secretary of health and human services shall submit a report to the governor, the secretary of administration and finance, the clerks of the house and senate, who shall forward the same to the joint committee on children, families and persons with disabilities, the joint committee on health care financing, the senate and house committees on ways and means, and the clerks of the senate and the house of representatives, regarding the status and evidence of the implementation of the prospective rate system set forth in section 7. The reports shall include, but not be limited to, information regarding the percentage of social service program providers reimbursed at the time of reporting by the secretary of health and human services through a rate setting process and the percentage of such providers reimbursed through a contract with another state agency and initiatives undertaken to promote efficiency or reduce or control costs and the results thereof.*

EOHHS has responded to Chapter 257 by creating a new POS Pricing Unit within the Division of Health Care Finance and Policy and by re-organizing the EOHHS POS Policy Unit to align with the implementation requirements. DHC FP has secured approval from the Executive Office for Administration and Finance for the re-allocation of DHC FP resources to support 5 new full time positions at EOHHS and DHC FP. Ongoing support from ANF for EOHHS' efforts to fill these positions is essential.

## IV. Three Strategies Required to Support Chapter 257 Implementation

As outlined earlier in this document, the three POS reform strategies are:

1. Create a standard POS service classification system
2. Develop rational rates for POS contracts
3. Reform POS contracting

The POS Reform effort is built on an outcomes-based framework. Each of the three strategies is based upon defining a common set of outcomes for each service class and then aligning POS administrative practices to achieve those outcomes. This allows EOHHS to develop a standard mechanism for assigning rates, aligning services and assessing performance.

Ultimately, the focus on outcomes enables EOHHS to redirect resources away from administrative activities and towards improving client service.

### Strategy 1: Create a Standard POS Service Classification System

#### Description of Strategy

*Develop and implement a POS service classification system to facilitate cross-agency collaboration and transparency in purchase of service system.*

Through the transition to a standard POS service classification system, EOHHS can establish a common language that allows like services to be more accurately compared across agencies. Not only does this facilitate cross-agency discussion and coordination in the procurement process, but also allows the POS Policy Office an improved mechanism to track purchasing and spending. As the foundation for EOHHS procurement, the POS service classification system will be enhanced to reflect coherent service classes defined by similar outcomes. In order to provide adequate oversight and control of the new service class structure, the POS Policy Office will develop a governance plan to provide agencies with guidance on service class coding and maintenance. The governance plan will be extended over time with policies and procedures that address other POS reform activities, such as contracting and procurement.

#### Problem Definition

Key problems include:

- **Disconnect from POS Transaction Management:** Many agencies have not found previous POS service classification efforts useful in their own tracking and understanding of services because none of these efforts connected back to basic business transactions they conduct for POS management. As a result, there has been limited incentive to keep the taxonomy current.

- **Lack of Centralized Governance:** There is a lack of defined policies and procedures for maintenance of the taxonomy, which further compounds the challenges to keep the taxonomy up to date.
- **Lack of Common Language, Classification and Coding:** Agencies independently classify and code their services and lack a common, cross-agency language to explain and discuss the services clients receive. For example, multiple agencies may use the term “residential services,” associated with their individual agency activity codes, while the services they categorize under the term may share little in common in terms of major program goals or modes of service delivery.

Chapter 257 presents a platform to address all of these problems. To set rates in conformance with Chapter 257, EOHHS must develop consistent and useful cross-agency service classes.

### Overview of Approach

#### *Methodology for realizing strategy*

To address these challenges, the POS Policy Office has started the first phase of POS reform activities to upgrade the POS service classification system and to build a technical capability for housing and maintaining POS service class codes. This first phase is critical, as it is focused on upgrading the core data that drive many downstream POS reform activities.

The approach to accomplish this phase of work is listed, below.

Activity	Description	Milestone	Timeline
Develop comprehensive classification system that links cross-agency service classes to specific service elements	<ul style="list-style-type: none"> <li>• Synthesized input from agency meetings resulting in comprehensive, cross-department service classes based on target population, general outcome areas, service setting, scope and bundling of specified service elements.</li> <li>• Mapped existing activity codes and associated spending to new service classification system.</li> </ul>	New service classification system	January '09

## Strategy 2: Develop Rational Rates for POS Service Classes

### Description of Strategy

*Development of rates that align with cross-agency service classes.*

EOHHS will conduct rate reform in accordance with Chapter 257. Rates will be determined by service classes as defined by the POS service classification system and with reference to the cost drivers within those service classes. Rates will account for meaningful differences in service requirements associated with different agency needs, population level of need, geographic regions, and other relevant factors. Depending on the expansiveness of services procured under a given service class, service classes could

have a single rate or multiple rates. Where appropriate, rates may also be aligned with the achievement of outcome benchmarks within a service.

A schedule for rate and contracting reform implementation will be developed in collaboration with departments. This implementation plan must balance potential disruption to procurement timelines with targeting services where the degree of provider overlap and size of spending would maximize benefits.

*Problem Definition*

Key problems include:

- **Contract Structures:** Currently, similar services are negotiated by agencies – or by regional offices in agencies – with individual providers. They are not typically priced in reference to actual costs that must be incurred by a reasonably efficient provider, to the achievement of outcomes, or to a common methodology. For example, purchasing departments often negotiate maximum obligation amounts on a per provider basis.
- **Agency Overlap:** The degree to which purchasing departments have relationships with the same providers providing similar services often results in a confusing web for both providers and departments regarding reimbursement amounts, contracting and reporting timelines, and requirements.
- **Fair Rates:** There is no method of ensuring that providers of a similar service are receiving a “fair” rate in comparison to their peers.

**Overview of Approach**

Activity	Description	Milestone	Timeline
Create Ch. 257 four-year implementation schedule	<ul style="list-style-type: none"> <li>• Developed schedule meets Ch. 257 standards and balances the needs of the POS Policy Office, HCFP, departments and the provider community; obtained approval from OSD and OSC.</li> </ul>	Chapter 257 Implementation Schedule	January '09
Confirm FY10 POS service classes for implementation	<ul style="list-style-type: none"> <li>• Obtain input from departments regarding service classes scheduled for implementation.</li> </ul>	Finalized service class schedule for FY10.	March '09
Determine and implement service class rates and contracting structure for FY10	<ul style="list-style-type: none"> <li>• Rates developed by HCFP in coordination with the POS Policy Office reflect the costs of efficient service delivery</li> </ul>	Re-determined rates, contracting structure and procurements as necessary for: <ul style="list-style-type: none"> <li>• 10% of POS spending</li> </ul>	July '09

Confirm FY11 POS service classes for implementation	<ul style="list-style-type: none"> <li>Obtain input from departments and providers regarding service classes scheduled for implementation.</li> </ul>	Finalized service class schedule for FY11.	March '10
Determine and implement service class rates and contracting structure for FY11	<ul style="list-style-type: none"> <li>Rates developed by HCFP in coordination with the POS Policy Office reflect the costs of efficient service delivery</li> </ul>	Re-determined rates, contracting structure and procurements as necessary for : <ul style="list-style-type: none"> <li>50% of POS spending</li> </ul>	July '10
Confirm FY12 POS service classes for implementation	<ul style="list-style-type: none"> <li>Obtain input from departments and providers regarding service classes scheduled for implementation.</li> </ul>	Finalized service class schedule for FY12.	March '11
Determine and implement service class rates and contracting structure for FY12	<ul style="list-style-type: none"> <li>Rates developed by HCFP in coordination with the POS Policy Office reflect the costs of efficient service delivery</li> </ul>	Re-determined rates, contracting structure and procurements as necessary for : <ul style="list-style-type: none"> <li>80% of POS spending</li> </ul>	July '11
Confirm FY13 POS service classes for implementation	<ul style="list-style-type: none"> <li>Obtain input from departments and providers regarding service classes scheduled for implementation.</li> </ul>	Finalized service class schedule for FY13.	March '12
Determine and implement service class rates and contracting structure for FY13	<ul style="list-style-type: none"> <li>Rates developed by HCFP in coordination with the POS Policy Office reflect the costs of efficient service delivery</li> </ul>	Re-determined rates, contracting structure and procurements as necessary for : <ul style="list-style-type: none"> <li>100% of POS spending</li> </ul>	July '12

### Activity 3: Reform POS Contracting

#### Description of Strategy

*Pursue a range of contract reform efforts focused on simplifying and reducing contract management activity without compromising internal controls*

Each POS contract represents multiple components of work. These units of work involve execution, billing and payment, amendment, and ongoing management. Both agencies and providers spend a significant amount of time and effort conducting these tasks. EOHHS has an opportunity to improve

the system and reduce the amount of time and effort devoted to contract administration by reducing the number of POS contract and by streamlining how they are managed. Contract Reform efforts will identify better ways to streamline and manage contracting practices with POS providers that contract with multiple purchasing departments. Invoicing and reporting will be simplified through infrastructure improvement and continued deployment of the online Enterprise Invoice Management System.

*Problem Definition*

- **Outdated Contract Administration Practices:** Thousands of contracts are in place between individual provider organizations and agencies. The contract reform strategy will replace the majority of these individually negotiated contracts with shared master agreements that provide greater flexibility and administrative simplification.
- **Focus on Outputs Instead of on Outcomes:** Management attention has been invested in program outputs delivered to as many consumers as possible at the lowest price. Successful execution of the POS reform plan will shift the incentive structure to client outcomes.
- **Decentralized Contracting:** Contracts are frequently executed at the regional level, leading to situations where multiple contracts are in place between the same agency and the same provider. Further, additional legal support in the area of contract law is needed.

**Overview of Approach**

Once the POS service classification system is established, contracting reform will occur in conjunction with rate reform. The methodology for the contract reform initiative is included, below.

Activity	Description	Milestone	Timeline
Develop contract reform plan	<ul style="list-style-type: none"> <li>• Secretariat-wide contract reform implementation work plan, roles and responsibilities developed for service classes with input from various stakeholders, including agencies and HCFP.</li> <li>• Developed Agency and provider outreach and training strategy on contract reform policies, procedures, procurement, legal review and management.</li> </ul>	Contract reform plan	January '09
Create purchasing governance plan	<ul style="list-style-type: none"> <li>• Developed and implemented process for agencies so that all procurement and contracting activities are coordinated by the POS Policy Office</li> </ul>	Purchasing governance plan	January '09

Create technological solution for POS management foundation	<ul style="list-style-type: none"> <li>• New or modified coding system links to service classes and meets agency reporting and billing needs.</li> <li>• The EOHHS Provider Data Management system (PDM) becomes the technical home for the service class structure.</li> <li>• PDM has integrated maintenance functionality with other sources systems, linking service class, rate, and agency information to EIM, MMARS, the UFR database, and agency MIS systems where necessary.</li> </ul>	Integrated service class coding and source systems for POS management, reporting and billing.	July '09
Upgrade EIM	<ul style="list-style-type: none"> <li>• Enhanced EIM to support use of rate and master agreements and outcome tracking; trained agencies and providers on upgraded system, where appropriate</li> </ul>	Enhanced EIM system	July '09

## V. Plan for Involving Stakeholders

The POS Reform Priority Plan will impact many stakeholders, including EOHHS agencies, health and human service providers, consumers and their families. A preliminary list of stakeholders and their responsibilities is included below.

- *POS Policy Office*: manage POS Reform activities
- *EOHHS Agencies*: provide purchasing expertise to assist in reform efforts
- *Providers*: participate in advisory and technical assistance groups to provide feedback on impact of various rate and contracting reform activities
- *Consumers and Families*: As contract models change and lead to changes in service structure or approach, EOHHS and departments will work with families to assess changes and ensure a positive impact on consumers
- *HCFP*: lead review and re-determination of POS rates by service class
- *EIM/Virtual Gateway Team*: manage system and infrastructure development needs

In addition to the stakeholders listed above, other state agencies, clients, provider trade organizations, and unions all have an interest in POS Reform efforts. However, these stakeholders will not play a direct role in the implementation process.

The POS Policy Office is committed to engaging with departments and the provider community to collaborate on POS reform planning and implementation. The Chapter 257 Implementation Team has been created consisting of the POS Policy Office as well as multiple agency designees. Additionally, providers will participate in POS Reform through two different types of groups, outlined below.

- A Policy Advisory Group which would meet at least quarterly, if not more frequently, to provide feedback on EOHHS implementation planning activities, status, and the overall approach to meeting the statutory requirements.
- A series of Technical Assistance Groups that would meet as needed (likely at varying frequency depending on issues at hand) to advise on the development of service classes, outcome definitions, procurement related activity, and rate methodologies.

## VI. Upcoming Milestones

Chapter 257 requires EOHHS to submit a report on March 30 that details the four year schedule for rate-redetermination under the new DHCFP regulatory framework. EOHHS plans to submit this report as required. Current work to re-organizing POS services into a standard Service Classification System is proceeding according to schedule. This Service Classification System will provide the foundation for service grouping into the four year plan, which will enable EOHHS, DHCFP and EOHHS purchasing departments to begin planning for resource allocation and re-procurement as necessary.

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