



# **Rate Setting Methodology Guide**



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# Background/Purpose

State Vocational Rehabilitation Agencies (SVRAs) are required to develop and maintain written policies covering the nature and scope of each of the vocational rehabilitation (VR) services specified in [34 C.F.R. § 361.48](#) and the criteria under which each service is provided ([34 C.F.R. § 361.50\(a\)](#)). Additionally, SVRAs must establish and maintain written policies, procedures, and internal controls governing rate methodologies for all purchased VR services, as described in VR's program-specific regulatory requirements in [34 C.F.R. § 361.50\(c\)](#). Applicable Federal and State requirements must be incorporated into policies while carefully considering the intended purpose and relative benefits.

There are a variety of considerations that make this process complex and unique to each State.

This document is not intended to serve as the required written policies that VR agencies must establish and maintain as required by [34 C.F.R. § 361.50](#). Rather, this document guides SVRAs through the various requirements and considerations related to the development and implementation of rate-setting methodologies and gives guidance for the completion of a policy/procedure that will assist SVRAs in implementing their processes. Included is a basic roadmap of steps and important considerations. It is unlikely that a single approach will apply to all rates; therefore, a comprehensive strategy or process must be identified to address the various types of purchases. SVRAs are responsible for expending and accounting for Federal awards by following Federal and State requirements as well as the terms and conditions of the award.

Key regulatory references are provided throughout; however, they are not all-inclusive. SVRAs must be familiar with governing regulations, particularly those that are State-specific. Additionally, SVRAs will benefit from coordination between their program and fiscal staff throughout the process to align with the agency's needs.

The following steps outline methods SVRAs may implement to help document the agency's overall process for rate setting.





## Step 1 - Know the Federal Requirements

SVRAs must develop and maintain written policies regarding the nature and scope of all VR services, as well as the written process for establishing the rates themselves. When considering requirements for rate-setting approaches, first consider the VR program regulations defined in **34 C.F.R. Part 361**. Additionally, Uniform Guidance, **2 C.F.R. Part 200**, including the Federal cost principles, assists with meeting the provisions of the VR program requirements.

### RSA Regulations

It is essential to become familiar with VR program-specific requirements. In some instances, the program regulations uphold requirements already in place through the **Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards** (Uniform Guidance, see above), and in others, further clarification is provided, or there is an expansion of the requirements. A rate substantiated by thoughtful consideration of program-level regulations is more likely to adequately support the item or service, translating to quality and benefit to the VR program. These provisions can all be accessed through **RSA's website**. Examples of regulations applicable to the rate-setting process are as follows:

- **34 C.F.R. § 361.12 Methods of administration**



- **34.C.F.R. § 361.48 Scope of vocational rehabilitation services for individuals with disabilities**
- **34 C.F.R. § 361.49 Scope of vocational rehabilitation services for groups of individuals with disabilities**
- **34 C.F.R. § 361.50 Written policies governing the provision of services for individuals with disabilities**

- **34 C.F.R. § 361.50(a) Policies**

The State unit must develop and maintain written policies covering the nature and scope of each of the vocational rehabilitation services specified in **§ 361.48** and the criteria under which each service is provided. The policies must ensure that the provision of services is based on the rehabilitation needs of each individual as identified in the individualized plan for employment and is consistent with the individual's informed choice. The written policies may not establish any arbitrary limits on the nature and scope of vocational rehabilitation services to be provided to the individual to achieve an employment outcome.

- **34 C.F.R. § 361.50(c) Payment for services**

1. The State unit must establish and maintain written policies to govern the rates of payment for all purchased vocational rehabilitation services.
2. The State unit may establish a fee schedule designed to ensure a reasonable cost to the program for each service if the schedule is –
  - Not so low as to effectively deny an individual a necessary service; and
  - Not absolute and permits exceptions so that individual needs can be addressed.
3. The State unit may not place absolute dollar limits on specific service categories or on the total services provided to an individual.

- **34 C.F.R. § 361.51 Standards for facilities and providers of services**



- a. **Accessibility of facilities.** The vocational rehabilitation services portion of the Unified or Combined State Plan must assure that any facility used in connection with the delivery of vocational rehabilitation services under this part meets program accessibility requirements consistent with the requirements, as applicable, of the Architectural Barriers Act of 1968, the Americans with Disabilities Act of 1990, section 504 of the Act, and the regulations implementing these laws.
- b. **Affirmative action.** The vocational rehabilitation services portion of the WIOA State Plan must assure that community rehabilitation programs that receive assistance under part B of title I of the Rehabilitation Act take affirmative action to employ and advance in employment qualified individuals with disabilities covered under and on the same terms and conditions as in section 503 of the Rehabilitation Act.
- c. **Special communication needs personnel.** The designated State unit must ensure that providers of vocational rehabilitation services are able to communicate --
  1. In the native language of applicants and eligible individuals who have limited English proficiency; and
  2. By using appropriate modes of communication used by applicants and eligible individuals.

## **Uniform Guidance (2 C.F.R. Part 200)**

The Uniform Guidance reduces administrative burden and improves outcomes under Federal awards. The following cost principles are applicable to rate-setting methodologies, and any rate that is developed must be consistent with these standards:

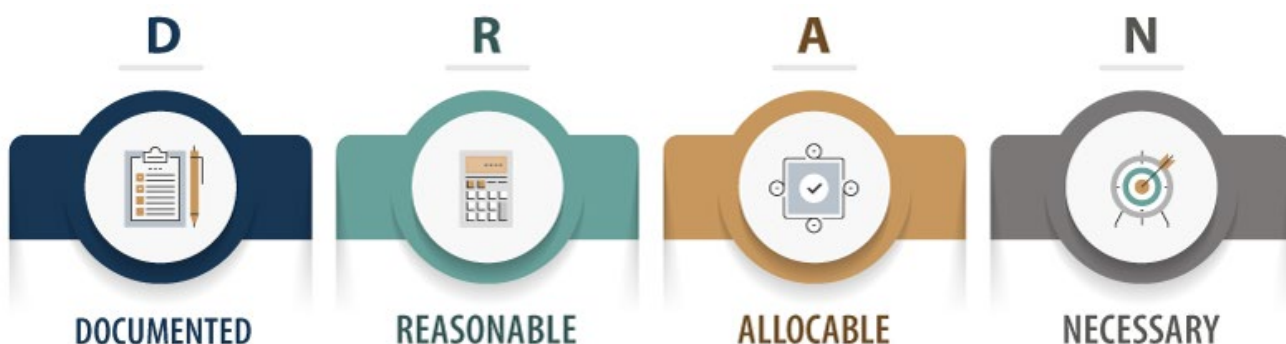
- **2 C.F.R. § 200.403** Factors affecting allowability of costs;
- **2 C.F.R. § 200.404** Reasonable costs; and
- **2 C.F.R. § 200.405** Allocable costs.



The above-referenced citations highlight key aspects for consideration when developing written policies for rate-setting methodologies. SVRAs must apply all requirements set forth within **2 C.F.R. Part 200** and include State-specific requirements, keeping within the requirements of the Rehabilitation Act and VR implementing regulations. These key references may be easily identified using the acronym **A-DRAN**:

**An Allowable cost must be:**

- **D**ocumented
- **R**easonable
- **A**llocable
- **N**ecessary



**A-DRAN** represents allowability factors to consider when determining rates. Cost strategies must be well documented, and costs must be reasonable in the judgment of a prudent person considering the purpose for which funds are being used.

Costs must also be allocated to a program in accordance with the relative benefits received by the program. If other costs are determined to solely benefit another multiple programs, they must be allocated in proportion to the relative benefits received by each program.

Finally, costs must be necessary for the performance of the VR award.

**2 C.F.R. § 200.403 Factors affecting allowability of costs**



Except where otherwise authorized by statute, costs must meet the following general criteria to be allowable under Federal awards:

- **Be necessary and reasonable** for the performance of the Federal award and be allocable under these principles.
- **Conform to any limitations or exclusions** set forth in these principles or in the Federal award as to types or amount of cost items.
- **Be consistent with policies and procedures** that apply uniformly to both Federally-financed and other activities of the recipient or subrecipient.
- **Be accorded consistent treatment.** For example, a cost must not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- **Be determined in accordance with generally accepted accounting principles (GAAP)**, except for State and local governments and American Indian programs only, as otherwise provided for in this part.
- **Not be included as a cost** or used to meet cost sharing requirements of any other federally-financed program in either the current or a prior period. (**See § 200.306(b).**)
- **Be adequately documented.** (See also **§ 200.300 - 309** of this part.)

## **2 C.F.R. § 200.404 Reasonable Costs**

A cost is **REASONABLE** if it does not exceed an amount that a prudent person would incur under the circumstances prevailing when the decision was made to incur the cost.





In determining reasonableness of a given cost, consideration must be given to the following:

- a. Whether the cost is generally recognized as ordinary and necessary for the recipient's or subrecipient's operation or the proper and efficient performance of the Federal award.
- b. The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, State, and other laws and regulations; and terms and conditions of the Federal award.
- c. Market prices for comparable costs for the geographic area.
- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the recipient or subrecipient, its employees, its students or membership (if applicable), the public at large, and the Federal Government.
- e. Whether the cost represents a deviation from the recipient's or subrecipient's established written policies and procedures for incurring costs.

## **2 C.F.R. § 200.405 Allocable costs**

- a. **Allocable costs in general.** A cost is allocable to a Federal award or other cost objective if the cost is assignable to that Federal award or other cost objective in accordance with the relative benefits received. This standard is met if the cost satisfies any of the following criteria:
  - 1. Is incurred specifically for the Federal award;
  - 2. Benefits both the Federal award and other work of the recipient or subrecipient and can be distributed in proportions that may be approximated using reasonable methods; or
  - 3. Is necessary to the overall operation of the recipient or subrecipient and is assignable in part to the Federal award in accordance with these cost principles.



- b. Allocation of indirect costs.** All activities which benefit from the recipient's or subrecipient's indirect cost, including unallowable activities and donated services by the recipient or subrecipient or third parties, will receive an appropriate allocation of indirect costs.
- c. Limitation on charging certain allocable costs to other Federal awards.** A cost allocable to a particular Federal award may not be charged to other Federal awards (for example, to overcome fund deficiencies or to avoid restrictions imposed by Federal statutes, regulations, or the terms and conditions of the Federal awards). However, this prohibition would not preclude the recipient or subrecipient from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.
- d. Direct cost allocation principles:** If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. However, when those proportions cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c), the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also [§§ 200.310 through 200.316](#) and [200.439](#).
- e. Costs of contracts subject to CAS.** If a contract is subject to CAS, costs must be allocated to that contract according to the Cost Accounting Standards, which take precedence over the allocation provisions in this part.

**“Relative benefits received,”** as discussed at [2 C.F.R. § 200.405\(a\)](#), may be measured in different ways, depending upon the cost being allocated. Any metric used to allocate costs under a Federal award must be in proportion to relative benefits received, as well as reasonable, logical, repeatable, and stable over time.



An obvious cause-and-effect relationship must exist. For example, square footage is a reasonable and logical means of allocating rent costs, and the relationship between the cost (rent) and the basis (square footage) for the allocation demonstrates proportionate benefits received. A greater and proportionate benefit (*caused* by more square footage) should logically result in greater costs (the *effect* of higher rent or a higher share of rent). The allocation of telecommunication costs based on square footage may not demonstrate proportionate relative benefits received. For example, supervisors may have larger offices; however, that does not mean they will have higher telecommunication costs. Therefore, assigning the cost of telecommunications on a square footage basis would likely not meet the requirement for proportionality. A more reasonable allocation basis might be per FTE.

Pay close attention to the other regulatory requirements within **2 C.F.R. Part 200** when developing rate-setting strategies. The following are examples of other regulatory references:

#### **2 C.F.R. § 200.302 Financial management**

- a.** Each State must expend and account for the Federal award in accordance with State laws and procedures for expending and accounting for the State's funds. All recipient and subrecipient financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by the terms and conditions; and tracking expenditures to establish that funds have been used in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award.
- b.** The recipient's and subrecipient's financial management system must provide for the following:
  - 1.** Written procedures for determining the allowability of costs in accordance with subpart E and the terms and conditions of the Federal award.

Some SVRAs have State exemptions for part of the State's procurement process to expedite consumer services or consumer purchases.



The Uniform Guidance at **2 C.F.R. §200.302 (a)** does not imply that a State may exempt itself from procurement processes and, therefore, be exempt from the Uniform Guidance requirements. SVRAs must ensure that even their exempt practices are consistent with the A-DRAN.

### **2 C.F.R. § 200.303 Internal Controls**

- a.** Establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in **Standards for Internal Control in the Federal Government** issued by the Comptroller General of the United States or the **Internal Control Integrated Framework** issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- b.** Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.
- c.** Evaluate and monitor the recipient's or subrecipient's compliance with statutes, regulations, and the terms and conditions of Federal awards.
- d.** Take prompt action when instances of noncompliance are identified.
- e.** Take reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information. This also includes information the Federal agency or passthrough entity designates as sensitive or other information the recipient or subrecipient considers sensitive and is consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality.

### **2 C.F.R. § 200.317 Procurements by States and Indian Tribes.**

When conducting procurement transactions under a Federal award, a State or Indian Tribe must follow the same policies and procedures it uses for procurements with non-Federal funds.



If such policies and procedures do not exist, States and Indian Tribes must follow the procurement standards in §§ 200.318 through 200.327. In addition to its own policies and procedures, a State or Indian Tribe must also comply with the following procurement standards: §§ 200.321, 200.322, 200.323, and 200.327. All other recipients and subrecipients, including subrecipients of a State or Indian Tribe, must follow the procurement standards in §§ 200.318 through 200.327.

## **2 C.F.R. § 200.459 Professional Service Costs**

- a.** Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the recipient or subrecipient, are allowable, subject to paragraphs (b) and (c) of this section when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government. In addition, legal and related services are limited under **2 C.F.R. § 200.435**.
- b.** In determining the allowability of costs in a particular case, no single factor or any combination of factors is necessarily determinative. However, the following factors are relevant:
  - 1.** The nature and scope of the service rendered in relation to the service required.
  - 2.** The necessity of contracting for the service, considering the recipient's or subrecipient's capability in the particular area.
  - 3.** The past pattern of such costs, particularly in the years prior to receiving a Federal award(s).
  - 4.** The impact of Federal awards on the recipient's or subrecipient's business (meaning, what new problems have arisen).
  - 5.** Whether the proportion of Federal work to the recipient's or subrecipient's total business influences the recipient or subrecipient in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal awards.



6. Whether the service can be performed more economically by direct employment rather than contracting.
7. The qualifications of the individual or entity providing the service and the customary fees charged, especially on non-Federally funded activities.
8. Adequacy of the contractual agreement for the service (for example, description of service, estimate of time required, rate of compensation, termination provisions).





## Step 2 - Know Your State Requirements

SVRAs are required to follow their State procurement processes pursuant to the Uniform Guidance Requirements at [2 C.F.R. § 200.317](#).

Due to the unique and complex nature of State requirements and to determine whether such requirements affect how a VR agency establishes rates of payment for purchased VR services, SVRAs need to know their State statutory authority for procurement, responsibilities of central procurement offices (if applicable), requirements or limitations based upon the type of procurement, and vendor and solicitation requirements.

State procurement regulatory and administrative requirements can be found in, but are not limited to:

- Statutes enacted by State legislatures;
- Code of State regulations;
- State statute authority; and
- State operations service division or State department of general services procurement handbook.

State procurement procedure requirements can be found in multiple State policies, including, but not limited to:

- State procurement codes;
- State cooperative agreement policies;



- State per diem allowances and travel requirements;
- Statutes enacted by State legislatures; and
- State internal control guides.

Rates for the procurement of VR goods and services are generally established through the following methods:

- Public solicitation using authority for local purchase (e.g., informal comparison pricing, formal requests for proposal (RFPs), etc.);
- Centralized State procurement processes and procedures (e.g., State travel per diem rates);
- Potential single source/exclusive contracts;
- Negotiated professional and technical contracts;
- IRS issued standard mileage rates;
- U.S. General Services Administration (GSA) published per diem rates;
- Established fee schedules through similar services such as Medicaid and Medicare rates; and
- Local minimum wage laws and prevailing wages for occupations.

An awareness of the above methods is essential as the SVRA addresses its approach to establishing payment rates for all purchased VR services.







### Step 3 - Identify What You Need

Coordinate with program and fiscal staff to develop a list of needed goods and services for administrative and program purposes. This list will support the development of a comprehensive strategy to assign rate methods for all goods and services, taking into consideration available organizational resources, expertise, and capacity for design and implementation. In addition, the Comprehensive Statewide Needs Assessment (CSNA) will assist the SVRA in identifying additional service gaps that can be incorporated into the overall list.





## Step 4 - Identify Required Qualifications

Map out the qualifications necessary for goods or services to determine vendor expectations, which may include the following:

**1. Meets Qualifications:**

- Possesses a requisite level of education, training, years of experience, and evidence of certifications as applicable.
- Able to do business with the State and have not been suspended or debarred by the State or Federal government.
- Can provide references demonstrating acceptable prior performance.
- Successful completion of a background check – (e.g., applies to any service provider who will be alone with customers in delivering services).
- A minimum level of insurance is maintained as determined by the agency, department, and/or State regulations (e.g., Errors and Omissions or Business Owner's Policy (BOP)).

**2. Responsive:** Provides quality, timely, and consistent communication with rehabilitation professionals and customers. \*The SVRA must define expectations of quality, timeliness, and consistency.

**3. Available and Accessible:** Meets with customers regularly and provides accessible environments and methods of communication.



4. **Provides Timely Reports and Invoices:** Provides frequent, accurate, consistent reports and invoices. Reports and invoices must be typed and not hand-written.
5. **Ethical:** Adheres to the highest ethical behavior and treats State VR Agency Rehabilitation Professionals and customers with respect.

In addition to other service provider requirements, Community Rehabilitation Programs (CRPs) should be licensed, certified, registered, or accredited for the specific training or services that they provide. Facilities providing services must:

1. **Be ADA compliant.**
2. **Provide appropriate accommodations.**
3. **Be staffed in such a manner that meets the criteria for affirmative action.**
4. **Have policies in place to prevent fraud, waste, and abuse.**
5. **Not be suspended or debarred or have principal leadership that is suspended or debarred.**

These requirements should ultimately be included within any contracts or agreements.





## Step 5 - Determine the Rate Setting Methodologies

Identify and document the appropriate rate-setting methodology for each good or service. The rates may vary or be tiered according to a predetermined set of conditions, such as services provided to specialized populations or the requirement of specialized skills or minimum educational requirements (e.g., bachelor's degree). A rate differential may be determined based upon the level of provider effort and/or the intensity of the service as determined by the unique needs of the individuals to be served (e.g., the need for a provider who is fluent in American Sign Language).

As discussed in **Step 2**, it is important to understand the State's procurement regulations and requirements when determining the methods to use. Note: There is a difference between having a State-mandated contract for certain services (e.g., interpreter contract) versus a methodology in place for a service. The latter would still require the VR agency to assess the extent to which VR requirements and Federal cost principles are implemented, although the established rate may be one point of comparison in determining reasonableness and establishing VR's rates.

Within these methods of procurement, some processes can further refine the rates that are established. The processes used should be incorporated into written procedures.

When implementing the procedures, make sure documentation includes the "what" and "how," as well as the reasonableness of the rates.



## Criteria and Considerations for Choosing a Rate Setting Methodology

The table below provides several criteria with considerations that could be applied to assess each methodology when determining a preferred approach.

Criteria	Specific Considerations
<b>Validity</b>	Does the method accurately measure (or produce) the desired information, products, and services?
<b>Captures variation</b>	Does the method capture variation in price or cost structure along relevant dimensions such as provider type, provider quality, geographic location, or other factors affecting the cost to provide a service(s)?
<b>Timeliness</b>	Does the method reflect current conditions, or is it out-of-date?
<b>Cost</b>	What does the method cost to administer or maintain the information collected, and is it cost-effective?
<b>Transparency</b>	How is the information resulting from the method used, and is it understandable to personnel, providers, and other stakeholders? How will the VR agency inform or train CRPs and vendors about new service rates or changes to existing rates?
<b>Stability</b>	Does the method capture real market trends or random fluctuations?
<b>Capacity</b>	Does the SVRA have the capacity to apply the method?
<b>Knowledge</b>	Does the SVRA have the knowledge to apply the method?



## Types of Methodologies

### a. Surveying

Surveying is one approach that SVRAs may use to inform its process for establishing rates. There are multiple options to consider, including the following examples.

1. This may include surveying States within a geographic region. SVRAs may use the following regional format, as designated by CSAVR, as a starting point for States to contact.
  - **Region 1:** Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont
  - **Region 2:** *CSAVR maintained the historical Regional Numbers, even when Region 2 was restructured.*
  - **Region 3:** Delaware, Maryland, Pennsylvania, Virginia, West Virginia, District of Columbia, New Jersey
  - **Region 4:** Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Puerto Rico, Virgin Islands
  - **Region 5:** Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
  - **Region 6:** Arkansas, Louisiana, New Mexico, Oklahoma, Texas
  - **Region 7:** Iowa, Kansas, Missouri, Nebraska
  - **Region 8:** Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming
  - **Region 9:** Arizona, California, Hawaii, Nevada, Guam, CNMI, American Samoa
  - **Region 10:** Alaska, Idaho, Oregon, Washington
2. Blind agencies may survey other blind agencies that provide similar services. Visit the [\*\*National Council of State Agencies for the Blind\*\*](#) and download the [\*\*“Separate Agencies for the Blind” document \(docx\)\*\*](#) under the **“Resources”** section.



- Comparing rates with other States will inform rate setting, but it may not determine proportionality. For example, most States have different tax rates, minimum wage requirements, business regulations, etc. Therefore, the costs for providing a service in one State will be different for the same service provided in a different State.
- In states with both a blind and general agency, discuss rates established by the other entity.
- Talk with other State agencies that may provide the same services. For example, both the Department of Education and the Department of Human Services often have providers that deliver similar services, such as job coaching, to their respective customers.
- Talk to CRPs and providers that serve other State or private entities. Review rates the other entities pay for the same services or similar services to determine if VRs established or proposed rates with the CRP and providers are comparable, reasonable, and necessary.

**b. Contract with Experts**

Some SVRAs have chosen to contract with experts that can assist with the creation of a rate structure. Typically, these experts are housed within an actuarial, governmental consulting, accounting firm, or other entity that can meet the requirements outlined in the scope of work and subsequent proposal requests. Talk with other SVRAs to get recommendations, as many of these experts work nationwide.

**c. Individual Negotiation with Vendors**

Once you have established a base rate for the service, you may need to include justifiable modifiers. For example, if there is only one provider in a rural area that averages twice as much time traveling to/from meetings with consumers than other providers in the State, a modification may be required. The SVRA may permit the contractor to bill for mileage in excess of the number of miles included in the base rate for the service. Another example may be when a primarily rural State has a city with a high cost of living (e.g., property values, wages, etc.). In such instances,



the State may need to modify the base rate to include additional reimbursement for providers located in a specific geographical area. Vendor overhead costs may also be considered.

1. SVRAs may request vendors to supply a breakdown of these costs on a routine basis.
2. Other factors to consider include the lack of service availability for underserved regions and populations. This may necessitate varied rates per geographic region.
3. After the items mentioned above are considered, the base rate calculation is modified as necessary, and a final rate is determined. Supporting documentation regarding the basis for modification and how the modification costs were calculated must be maintained.

A statement of the vendor's cost for providing a service does not mean those costs are reasonable or necessary and that the VR agency must "accept" the costs and/or suggested rate provided by the vendor. The VR agency must be able to support the basis upon which the costs are justified. For example, many pre-employment transition service (Pre-ETS) contracts include personnel costs; however, agencies are rarely able to provide details as to the qualifications of the personnel providing the services. To determine the appropriate personnel costs, the personnel qualifications must be clear, as professionals are typically paid differing amounts depending upon qualifications required for the position. For example, having two different Pre-ETS contracts providing the same services with markedly different personnel costs may raise questions as to the reasonableness of personnel costs in the higher reimbursement contract.

## Types of Rates

An overall rate setting policy may include multiple methodologies for different types of rates, depending on the various types of purchased VR services. Keep in mind that within a service type, a base rate may be necessary, with additional amounts added on for qualifying factors. For example, for the job coaching base rate, the cost of doing business in an urban area, where housing costs are three times higher, could allow for an





increased amount. Additionally, in rural areas where extensive travel time is required due to geography, there may be an additional amount as well. Sometimes services require a special skill set, such as sign language interpretation, and a higher rate is substantiated.

Within each service, think about the complexities and nuances of service delivery when considering qualifying factors. The following are examples of rate types. Within each type, think about whether a single base rate is adequate to secure the services needed.

**a. Fee-for-Service**

Under the Fee-for-Service method, the agency establishes either fixed or predetermined rates for a single service according to units, typically measured in time (e.g., per minute, hour, day, etc.) or module. This is commonly referred to as an hourly rate or a rate for a specific project module. This rate is established from an analysis of customary or market rates for the services to be provided and/or a review of the budget proposed by vendors to perform the service. This approach can be further refined within designated geographic areas.

Under a customary or market rate, the agency will adopt the fair market price for an established service. For example, an agency may adopt a fee schedule used by the State, or goods may be available under contract for all State agencies at an already negotiated market rate. Similar services may already be purchased through other programs like the State's Medicaid program or Developmental Disabilities program.

**b. Value-Based Purchasing Model**

Value-based purchasing (VBP), also known as a performance-based or milestone payment, is a model that offers financial incentives to providers for meeting certain performance or outcome measures. As SVRAs look to improve outcomes for individuals with disabilities, the quality of purchased VR services, and overall cost-effectiveness, a performance-based approach may be an option.

If considering a VBP model, SVRAs should ensure provider performance measures align with the WIOA performance indicators, achievement of high-quality employment, or other impactful outcomes important to the SVRA and VR program.



Additionally, sustainability is a point to assess for both the SVRA and provider(s) when setting performance measures and payment structures.

A central tenet of VBP is the shift in paying for value and outcomes rather than paying for units of service, regardless of the outcome. As such, providers who deliver exemplary work benefit financially for their efficiency and effectiveness. The US Department of Labor, Office of Disability Employment Policy publication authored by Lisa Mills, Ph.D., provides additional information: [\*\*Value-Based Payment Methodologies to Advance Competitive Integrated Employment: A Mix of Inspiring Examples from Across the Country \(2021\).\*\*](#)

SVRAs will want to take a thoughtful approach in the development of the performance measures they seek to incentivize when aiming to improve outcomes to ensure they will be sustainable for the agency and provider. Additionally, SVRAs should ensure that metrics for provider performance are aligned with the WIOA performance indicators.

Performance-based contracting typically starts with defining the desired service outcomes. When looking at employment services, phases could include assessment, job development, job placement, related training leading to employment stabilization, and job supports.

Once service outcomes are clear, then define the specific benchmarks or milestones and the criteria that qualify for reimbursement. Each service outcome may be reimbursed at one or more benchmarks. For example, providers may be reimbursed at one rate for submitting a plan assessment and another rate when the final assessment report is complete. Or a SVRA may merge those two benchmarks and pay after the final report.

1. A critical step in defining payment points is identifying the criteria that represent each benchmark's successful attainment. For example, to pay for a successful employment outcome, the individual must be employed for a minimum of 90 days in a job consistent with their individualized plan for



employment (IPE), the individual must be satisfied with their job and the number of hours of work per week, in consultation with their vocational rehabilitation counselor. Payment is made after the criteria are met.

2. Establish a fee for each payment point. This could be done jointly by a formalized bidding process, negotiations with a provider or provider group or the structure could be determined statewide by the VR agency and applied to all service providers.
3. When analyzing bids or negotiations, the SVRA can look at historical data on what the VR agency has paid for that service, regional cost variations, provider cost information, and specific disability group nuances for service.
4. If the VR agency decides it is appropriate to establish fees statewide, the SVRA could analyze the historical data on past expenditures and outcomes to help determine the fee level set statewide.
5. SVRAs must ensure that payments are only for outcomes achieved while the individual has an active IPE. Payment for outcomes based upon time after the individual has achieved an employment goal and the IPE is closed is not proportional to the benefit received since no VR services can be provided after the IPE is closed and the participant is inactive.

There are more possibilities than those listed above that can be explored with your RSA Financial Management Specialist.

## Methods Commonly Used to Determine Price Reasonableness

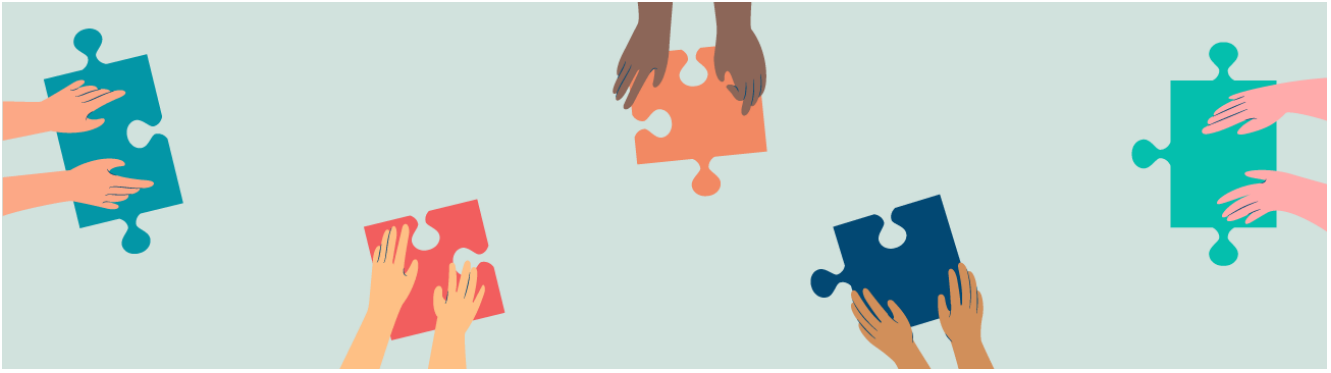
SVRAs must ensure that the cost of goods and services is fair and reasonable. Each price analysis or cost analysis **MUST** be documented in writing.

- **Adequate price competition:** Multiple offers are solicited, incorporating a clear and accurate description of the technical requirements for the material, product, or service to be procured, identifying all requirements that must be fulfilled, along with all other factors to be used in evaluating bids. Offers are reviewed and compared, factoring in, at a minimum, the ability to meet the requirements in the most cost-effective manner.



- **Comparable to price sold to Federal government:** The vendor also enters into contracts with the Federal government. If the vendor cites a GSA contract price, the SVRA will also want the GSA contract number to verify.
- **Historical price:** If there is a history of purchasing the good or service over several years and the cost was established using a cost-effective approach, the SVRA can use this information, considering inflation factors, to determine the price that is fair and reasonable. Document the historical pricing summary (copies of computer reports or spreadsheets with the agreed-upon rates by year). Note that if the SVRA has a history of underpaying or overpaying for goods and services, then the historical price should not be used.
- **Comparison to in-house estimate:** Compare the rate providers are charging for a service to the rate the SVRA would pay for staff time and benefits to perform the same task. Factor in the expected qualifications for the direct comparison.
- **Comparison to similar items:** The vendor contracts with various entities and charges this similar rate to all entities (e.g., Department of Education, Department of Human Services, etc.). Document who the SVRA talked to at the entity, the date, and the rate they pay. The SVRA must still ensure the cost is fair and reasonable.
- **Cost analysis:** A cost analysis looks at the individual elements of the price (For ex: use labor rates, direct and indirect administrative costs, items like mileage and travel costs, or inflation) and analyzes those.
- **Other factors:** Look at other factors such as geography and any additional costs related to location and specific populations. For example, maybe the SVRA is contracting for a job coach that can also provide sign language interpretation for an individual who is deaf. Instead of paying for both an interpreter and the job coach, the SVRA should factor in an increased rate for handling both duties.





## Step 6 – Develop Written Policies/Procedures

Documentation has been referenced numerous times throughout this guide because it is both important and required. A SVRA must document and incorporate rate setting methodologies within written policies and procedures. The following should be considered and outlined:

- a. SVRAs should ensure that documented procurement procedures follow applicable state, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal regulations and the standards identified in **2 C.F.R. Part 200**. Agencies' written procurement processes should also incorporate a clear and accurate description of the technical requirements for the procured good or service.
- b. Identify staff position(s) responsible for developing and maintaining established rates. This responsibility is typically coordinated by central office administrative staff and generally should not be placed with vocational rehabilitation counselors (although VR counselor input may help inform elements of the VR agency's approach to implementing policies).
- c. Identify all the types of purchased VR services in which established rates are needed, consistent with the nature and scope defined in **34 C.F.R. § 361.48**.
- d. Provide a clear description of how rates are established within each service type.
- e. Identify the effective dates of the rates and the frequency of rate updates (e.g., rates are good for three years), and a descriptive process to analyze economic changes, educational requirements, or identification of other factors that would



require a SVRA to initiate a review of one or more rates for services prior to the end of a specified time period.

- f. Document how the methodology will be applied consistently to ensure rates are applied the same way in similar circumstances, including the use of technology systems (e.g., case management system and/or state financial system). While methodologies should be applied consistently, the same rate does not have to be used for the same service in all circumstances (e.g., urban versus rural variations).
- g. Describe the process for determining the reasonableness of rates.
- h. Prior to policy implementation, ensure the requirements in [34 CFR 361.20](#) are followed. The provisions include that the SVRA must conduct public meetings prior to the adoption of any substantive policy and/or procedural changes. This requirement also includes input from the Statewide Rehabilitation Council (SRC).
- i. Establish a communication plan, so staff is aware of established rates and updates. For some services, it may be necessary to also document the process for communication and collaboration with external stakeholders, including CRPs and vendors.
- j. Identify a process for maintaining historical records of rate types for the various types of services.

Finally, consider the SVRA's availability to leverage technology systems when managing rates. Statewide accounting systems and VR case management systems sometimes have the ability to track rates and incorporate them electronically within the procurement process. Internal controls are often built in, such as effective date parameters, security access controls, etc.

Reach out to your RSA Financial Management Specialist or the VRTAC-QM fiscal team if you have questions or need assistance.



# Resources

- [CMS Documentation of Rate-Setting Methodology](#)
- [Value-Based Payment Methodologies to Advance Competitive Integrated Employment: A Mix of Inspiring Examples from Across the Country](#)
- [Paying for Success: Results-Based Approaches to Funding Supported Employment \(pdf\)](#)
- [Methods Commonly Used to Determine Price Reasonableness](#)

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