Kentucky's Great Experiment

Empower Kentucky Seeks to Improve Transit, Lower Costs

by Tom Michels and Scott Bogren

In early 1997, Governor Paul Patton unveiled his EMPOWER Kentucky plan which promised to, among other things, better transportation for everyone in Kentucky while the state paid less.

The transportation delivery process outlined under EMPOWER Kentucky guarantees transportation service to all welfare recipients for both employment and child care-related trips. Further, the plan includes all non-emergency medical trips for Medicaid recipients. It's a bold undertaking for a state in which 22 rural counties have no public transportation.

It was President Bill Clinton who first put Kentucky's proposal on the national stage at a 1997 Governor's Conference when he praised the EMPOWER Kentucky initiative's use of a transportation brokerage system to assure transportation in all areas of the state.

"This will probably be something that all of us who come from states with large rural populations, where there are people in rural areas on welfare, will have to adopt," said President Clinton, recalling his days as governor of Arkansas.

To quantify Empower Kentucky's potential transportation savings, the state engaged the consulting firm of Deloitte & Touche to study the plan. The firm estimated the savings to Kentucky's transportation budget at $30 million by the year 2002. The job now is to begin implementation.

Currently, the state is in the midst of its first Empower Kentucky demonstration, a four-month trial run in one of the pre-determined regions. State officials hope to prove the effectiveness of the program in this demonstration period while ironing out any of the potential pitfalls.

In remarks he made to the Transportation Association of South Carolina in late February, Jerry Ross, director of the Division of Multimodal Programs for the Kentucky Transportation Cabinet (the department of transportation), revealed that the state had a single bidder on its initial demonstration.

A Window of Opportunity

To help implement EMPOWER Kentucky, the state assembled an intergovernmental team to address the challenge of transportation delivery. The group, all of whom had prior experience with transportation programs, was comprised of representatives of Workforce Development, Health Services and Families and Children and included officials from the Medicaid Services and Mental Health/Mental Retardation Services.

"These teams of state employees were able to design smarter ways to get the job done and better methods to serve constituencies — from fewer forms to getting complete information in one phone call to one-stop local access to services," says Governor Patton.

Prior to EMPOWER Kentucky, Medicaid recipients received vouchers for medical transportation and TANF recipients received a $3 per day cash payment for transportation mailed directly to them. Now the payment would go directly to the provider/broker through the transportation cabinet on a capitated basis. For every Medicaid or TANF consumer, the provider/broker guarantees transportation. In return, the transit provider/broker will receive a certain (as yet undetermined) dollar amount per month, per recipient (regardless of whether or not the recipient utilizes their transportation).

Presently, the Kentucky Transportation Cabinet has divided the state into 16 multi-county regions (refer to map on page XX). These regional boundaries were determined by the number and size of existing transportation providers and the number of TANF and Medicaid consumers. After analyzing the results of the current four-month demonstration, the Kentucky Transportation Cabinet will develop a Request for Proposal for each region which seeks a contract with a single provider/broker per region. Each provider will be responsible for directly furnishing or securing the necessary means of transportation for the consumers in the region. A provider/broker will have to meet statewide safety standards for vehicles and personnel.

It appears that Kentucky hopes the flat rate will be sufficiently enticing to attract transit provider/brokers that can count on a great number of TANF and Medicaid recipients not taking full advantage of the transportation being offered. Therein lies the experiment.

The advantage to the TANF and Medicaid consumers is clear: Guaranteed transportation service for qualified trips, even in previously underserved areas. The benefits to Kentucky are equally obvious: a specialized transportation system coordinated at the state and local level at a great savings to the taxpayer.

"I'm excited about EMPOWER Kentucky because it takes programs like Medicaid and TANF and moves the transportation aspects over to the people whose main focus is transportation. Medicaid administrators have as their primary focus medical care, which is as it should be, but transportation is a separate entity," says J. Barry Barker, president of the Kentucky Public Transit Association (KYPTA).

The Demand for Change

The two primary forces driving the engines of change in Kentucky are the federal mandates surrounding welfare reform and the specter of perceived fraud and abuse in the current Medicaid non-emergency transportation delivery process.

Under the old Aid to Families with Dependent Children (AFDC) program, most welfare recipients were required to participate in job training or work activities. Kentucky, however, had fully exempted the recipients from numerous counties because these rural areas were either inaccessible by any form of transit or simply did not offer sufficient opportunities. These exemptions severely limited statewide success in getting welfare clients back to work. Under the EMPOWER Kentucky initiative, the plan is to incorporate even these areas into the statewide coordinated transportation system.

Undoubtedly, a pressing issue spurring Kentucky's change in business practices was the current system's perceived openness to abuse and fraud. The Medicaid non-emergency transportation fraud that was widely publicized in Louisiana, Georgia and Maryland has forced many a state to re-examine its transportation delivery system.

To the credit of the Commonwealth, Kentucky did not respond in such a way as to lock out public transportation agencies (see related story on Alabama in July 1997 CT , p. 24) but is experimenting with a program designed to control costs and strengthen transportation. These reform efforts have forged a plan with elements typical of a managed model with regional brokerages and gatekeeping mechanisms that make the initiative more attractive to state Medicaid officials and more resistant to abuse.

De-Capitation Rate

A central issue facing the Kentucky Transportation Cabinet is the capitated rate. The actual rate will likely determine the future success of EMPOWER Kentucky, because it will dictate the potential funding to the provider/broker and the expense to the state. Capitated rates are, increasingly, a force to be dealt with in community transportation.

"There are two chief benefits to capitated rates," says David White, president of Coordinated Transportation Solutions in Derby, Ct., a for-profit provider serving 50,000 Medicaid enrollees under a captitated rate. "One, you know you're going to get paid, without getting wrapped up in a claims process. Two, capitated rates greatly reduce paper work, making the program easier to administer."

Ken Hosen, a consultant with considerable Medicaid and brokerage experience with the KFH Group in Bethesda, Md. gives voice to the most frequently expressed qualm with any sort of capitated rate for transportation services when he says, "With a capitated rate, the less trips that a provider has to make, the more money they will earn." A rather frightening thought from the point of view of the consumer.

Hosen goes on to point out that , "Any provider or broker could discourage ridership by providing shoddy service with rude drivers, long hold times for scheduling, and roundabout routing. Unless there is a strict mechanism in place for reporting, it's very risky...so much depends on an accurate rate structure."

The Transportation Cabinet has reserved the right to conduct on-site reviews with any provider/broker at any time to ensure compliance with the RFP's requirements. These include such details as the number of times an ordinary scheduling telephone call may ring (five), to comprehensive requirements for driver, attendant and service personnel training.

While the RFP's requirements virtually exclude any option for maintaining low ridership through shoddy service, the requirements themselves are empty without proper enforcement. The right to conduct on-site reviews and the actual follow through will remain distinct until put into practice.

Kentucky Transportation Cabinet Branch Manager Dallous Reed admits, "A lot will have to be left up to the integrity and honesty of the provider." Reed also states firmly that, "We do plan on making on-site visits, and we will be relying heavily on our complaint tracking system. We will have an 800 number set up specifically for the purpose of complaint tracking and reporting."

The key is how the capitated rate is calculated. Kentucky officials will use historical data where it exists and the results of the four-month demonstration, along with an actuarial study currently underway.

"The rate will probably have to vary from region to region," says Vicki Bourne of the Transportation Cabinet.

"Unless you have really good trip profile data there's considerable risk," says David White. "We won't sign a contract without a quarterly review and a stop-loss clause."

But what if the demand for transit skyrockets when it becomes a guaranteed? This is especially possible in the rural areas that have no pre-existing transportation beyond expensive taxis and an undetermined latent demand. The transit provider/broker could lose if the demand is stagnant for a lengthy period and then begins to multiply dramatically as word spreads.

"You can really go down the tubes if you're not careful," warns White. "A capitated rate leaves very little room for error."

Today, however, EMPOWER Kentucky is still in the planning and demonstration phase, data has not yet been developed and capitated rate structures are in the works. Sue Jeffers, Director of Transportation of the Blue Grass Community Action Agency is excited and pleased with the initiative but notes, "Right now we are dealing with predictions. Without concrete numbers, it (the EMPOWER Kentucky transit initiative) could go either way."

An Assumption of Risk

EMPOWER Kentucky, it seems, has been developed in such a way that everyone, the state, clients and transit provider/brokers, assumes a portion of the risk.

At the state level, Kentucky has applied for a Medicaid waiver which will mean, if approved, a 5 percent cut in Medicaid funding. The state is willing to lose this money in exchange for EMPOWER Kentucky, which will end any freedom of choice in terms of transportation provider for Medicaid clients — a calculated risk on the part of the state. Additionally, the state could be opening itself up to lawsuits if Medicaid participants go unserved in the new plan.

For the transit provider/broker, the risk is tied to the capitated rate. If the transit agency is not being properly subsidized for the cost of the trip, it has but two choices: provide less service, or back out of the contract. If the provider/broker backs out, thousands of clients could be stranded; if it cuts service, the same damage would result on a slightly diminished scale. Also, there is a third, more hidden, danger for transit agencies in Kentucky. How can an agency say no? Because Medicaid and TANF recipients are traditional community transportation riders, can an agency afford not to bid even though it fears the capitated rate might be too low?

In an area with limited public transportation and approximately 56,000 TANF caseloads and 520,000 Medicaid recipients statewide, residents need mobility to access services. According to the Transportation Cabinet, 22 of Kentucky's rural counties have no public transportation, although Medicaid transportation via taxi or otherwise is available everywhere. The proposed initiative would guarantee transportation for TANF recipients as well in those areas. However the question remains: Is it feasible?

"We think you need about 50,000 enrollees to stay in business," says White.

The Kentucky Public Transit Association's Barker notes: "This is something that we [the transit association] suggested several years ago, so we stand behind it. I don't think that the state is in anyway shirking their responsibility, but the jury is still out on the rate structure."

The Experiment Goes on Trial

Although nobody enjoys the feeling of standing on unsure ground, the state of Kentucky finds itself in that awkward position. This plan is untested, but innovative, and other states are sure to keep a sharp eye on the situation as it develops. As TANF rolls steadily decrease, and as the Medicaid program grows ever larger, spawning an industry all its own, community transportation has an unsteady seat in the process. Individual participation in the TANF program, by its charter, can only last so long, but as a result of current legislation, Medicaid (and Medicaid transportation) stands to be a fast growing industry.

The agencies that answer Kentucky's call will have a great deal to do with the success or failure of the program. Community transportation as a whole must train itself to effectively take advantage of the opportunity that capitated rates offer while sidestepping the potential pitfalls. State governments also are in the formative stages in how they consider controlling costs while improving services and infrastructure. Capitated rates are an enticing strategy for state governments in that they effectively limit state spending while maximizing service.

The transportation delivery process outlined under EMPOWER Kentucky is an innovative, but early attempt to harness a capitated rate spending strategy while serving thousands of new community transit riders.

As one community transit expert said about EMPOWER Kentucky: "This is one of the most visionary and far-reaching programs in its approach. It's an experiment that should be encouraged, watched and supported and forced to live up to its potential."