The Truth About Chapter 257:

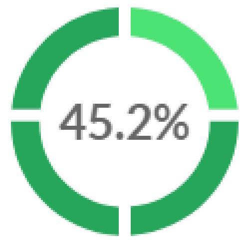
CEO Pay, Admin Costs Soar, While Direct Care Workers Lag Behind

CHAPTER 257 SPENDING: BY THE NUMBERS

In the nearly ten years since the Massachusetts legislature adopted Chapter 257 Purchase of Service rate-setting reforms, state spending for private sector human service agencies has dramatically increased. The stated key goal of the measure was to increase wages for direct care workers and reduce turnover, and address what the human service agencies have termed a “workforce crisis.”

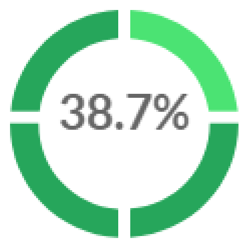
The Commonwealth’s spending on private human services agencies has increased by 45% — an increase of half a billion dollars to the largest fifty of these institutions alone. Yet the frontline workers who directly administer these critical services are still struggling to earn a living wage. As their union, Service Employees International (SEIU) Local 509 decided to follow the money. The funding increases made possible by Chapter 257 did not come with any accountability measures, leaving it up to the private agencies to determine their own spending priorities.

This report finds that the agencies prioritized administrative and management expenditures and CEO compensation. Those spending areas rose dramatically and in proportion to the significant state funding increases. But the agencies did not prioritize increasing direct care workers’ wages. **As a result, direct care workers’ wages increased at just a third the rate of funding increases — leaving thousands of workers making barely above the state minimum wage.**



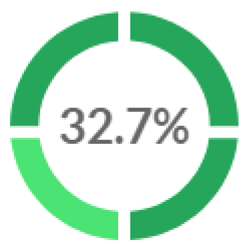
Funding Increase

State funding for provider organizations increased by over $700mil



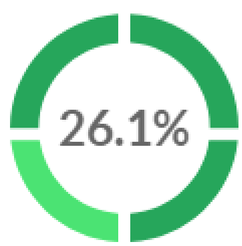
Admin Spending

Has increased roughly proportional to overall funding increase



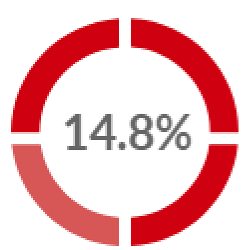
Net Revenues

Provider organizations' net revenues have also increased by roughly a third



CEO Pay

Provider organization CEO compensation has increased while workers have yet to reach living wage



Workers' Wages

Direct care workers' wages have gone up by less than a third of the rate of state funding increases

Chapter 257: A Way to Raise Direct Care Workers' Wages

When the Massachusetts legislature adopted the Chapter 257 Purchase of Service rate-setting reforms in 2008, the rationale for doing so was the high rate of turnover among human services workers in direct care roles, in addition to the related issue of shortages in job applicants.[i] At the time, the EOHHS specifically attempted to address this workforce instability by recommending that a Fair Wage Standard be incorporated into the rate revision process.[ii]

> **"Human services jobs are both physically and emotionally demanding, requiring staff to be caring and resilient as they work with people facing significant challenges. Yet, as has been repeatedly documented over the past decade, direct service positions in this industry are paid a lower wage than their counterparts in health care, education, and government positions." –** *The Providers Council, March 2017*

Despite these efforts by policy makers, problems of low pay, high turnover, and a dearth of applicants persist within the human services sector – even after the implementation of the new rates beginning in FY2014, especially compared to similar job categories in the health care sector. Even though the past several years have been accompanied by sizable increases in program funding, 71% of providers freely admit that the low wages they offer continue to create difficulties in attracting and retaining direct care workers, according to a recent survey commissioned by the Providers' Council.[iii]

In order to demonstrate how improved accountability for human services organizations' spending priorities could help cover the additional cost of providing the lowest-paid direct care staff with a living wage of $15.00 per hour, SEIU Local 509 has conducted an analysis of wages paid to front-line care workers in the Direct Care/Program Staff I category – specifically referring to positions not requiring a four-year degree.[iv] In addition, this report also examines the financial performance of the provider organizations since FY2011, in order to identify recent patterns in revenue and expenses.

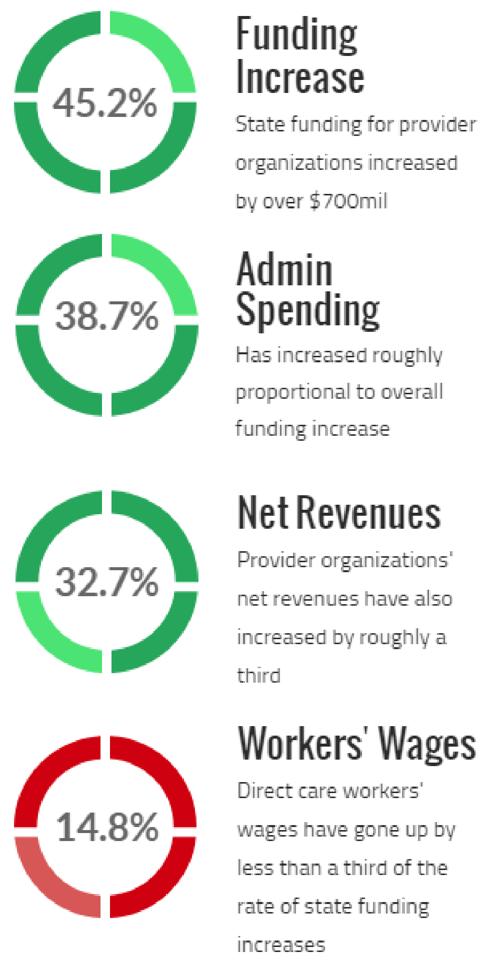
The figures presented here are based on a sample comprising the top two-thirds of providers by the size of their total salary reserve-eligible payroll as of FY2013, the year immediately prior to the implementation of the Chapter 257 rate reforms.[v] Total funding from the Commonwealth of Massachusetts (excluding Medicaid) to these 52 organizations was $1.6 billion in FY2016, growing by 45.2% over the past six years.

Direct Care Workers Still Not Earning a Living Wage

Given that the goal of Chapter 257 reform was to make direct care work a more desirable profession – aiming to address persistent staff shortages and high turnover by improving wage levels – it is clear, nearly a decade after its adoption, that this goal has not been met. Human services care work remains a low-wage profession: in FY2016, employees of the 52 organizations examined here received an average hourly wage of just $13.59. Although some progress has been made, pay remains below a living wage, and wages have not increased in proportion to the recent increases in state funding, nor have they increased in proportion to the growth in other spending categories.

Absent Accountability Has Led to Misplaced Spending Priorities

Ballooning CEO Pay



Although some improvement in wages is apparent following the implementation of the new rates, it is hardly overwhelming, especially compared to the growth in other spending categories and increases in Commonwealth program funding. Over the past six years, total Commonwealth revenue to the provider organizations grew by 45.2%, spending on administration grew by 38.7%, and net revenues grew by 32.7%.

At the same time, average wages for direct care workers grew by only 14.8%, or about 2.9% per year on average – at less than one third of the rate of increases to state funding. Even disregarding the increased staffing levels during this period, the growth in program funding far outpaced the 32.1% growth in the total amount spent on wages, revealing that improving direct care worker pay has not been prioritized by the providers to the extent that it should have been. **In fact, spending on wages fell as a share of total expenses, by 4%, between FY2011 and FY2016.**

During the same six-year period, all of the organizations included in this report paid out a total of $2.4 million in CEO raises, with the average CEO receiving $239,490 last year. The highest total compensation amount was that of Seven Hills Foundation CEO David Jordan, who took home a total of $797,842, including a $334,270 salary with an additional $349,480 in deferred compensation, a $21,119 health and dental insurance benefit, $2,264 car lease, $7,709 life and disability insurance policy, and $83,000 defined benefit pension.[vi] **Overall, CEO compensation has grown by 26.1% since FY2011, even while many direct care staff have yet to reach a living wage.**

Provider Organizations Can Already Fund $15/Hour for Frontline Workers

A lack of provider spending on increased wages for workers is not for lack of operating revenue or funding. **It would have cost an additional $34 million to bring these direct care workers up to a living wage of $15.00 per hour in FY2016. This amount could have been easily**

covered, for example, by the $51.8 million in total net revenues that these organizations reported in the same year.

On the whole, most providers have the resources needed to remedy this problem without altering any other spending levels. In fact, the average net income margin for these organizations has more than doubled, averaging 1.3% over the three years prior to the rate increases compared to 2.7% for the three years following.

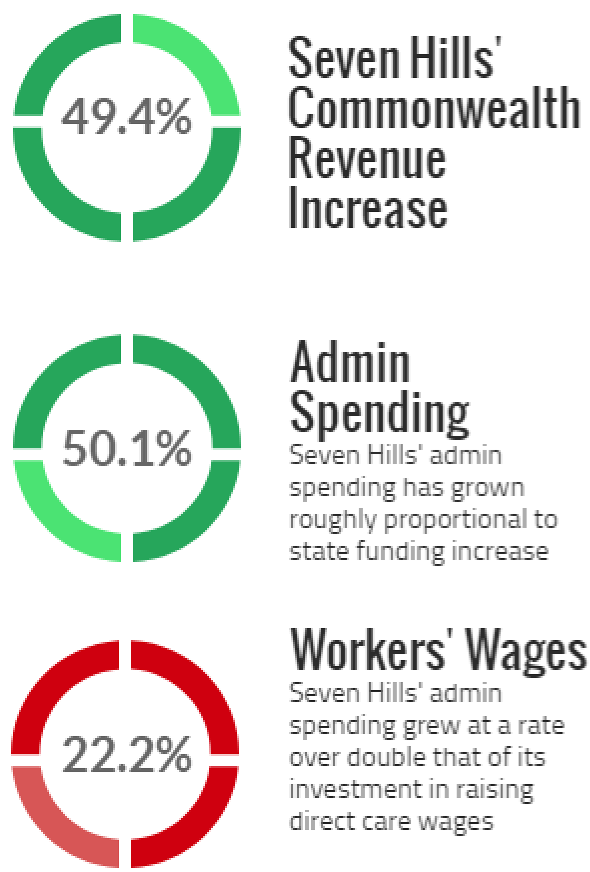
These surpluses could grow even more in the coming years, due to amended regulations allowing providers to net a 20% annual surplus in cost savings from their total Commonwealth revenue.[vii] **This all suggests that the amount of state funding is not at issue in the failure to pay a living wage to direct care staff, but rather, that the root of the problem is the manner in which the providers have chosen to spend their increased revenues absent specific conditions attached to the funding.**

A Closer Look at Three Major Providers in Massachusetts

In order to illustrate the flawed spending priorities of the provider organizations, and how they might afford to pay all of their direct care staff at least $15.00 per hour, it is worth taking a closer look at three major providers in the state: the Seven Hills Foundation, based in Worcester; Vinfen, based in eastern Massachusetts; and the Center for Human Development (CHD), based in Springfield.

Seven Hills Foundation

The Seven Hills Foundation is the largest human services provider in Massachusetts, with a total FY2016 budget of $200 million. Seven Hills received $125 million in program funding from the Commonwealth in FY2016, the overwhelming majority from the Department of Developmental Services (DDS) and the Department of Early Education and Care (EEC). While the organization's total Commonwealth revenue has grown by 49.4% over the last six years, and spending on administration has grown by 50.1%, the total spent on wages has grown by a comparably meager 22.2%. **The average employee in the Direct Care/Program Staff I category at Seven Hills makes just $12.47, more than a dollar beneath the average wage for workers across all the organizations analyzed in this report.**



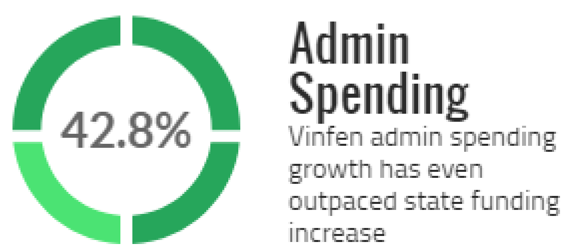
Overall, the total amount spent on wages has actually fallen as a share of the organization's expenses since FY2011, despite adding over 200 FTE during that period.

Meanwhile, compensation for the organization's top five executives reached $1.8 million in FY2016, with CEO David Jordan receiving a total of $797,482 – by far the most generous compensation package of any provider. These facts strongly suggest that Seven Hills Foundation's leadership has prioritized poorly in deciding how to spend the $41.4 million in additional state funds they have received since FY2011, short-changing their front-line workers in the process.

Vinfen

Vinfen Corporation was the third largest provider by revenue in FY2016, with a total budget of $144.8 million. The organization received $112 million in program funding from the Commonwealth in FY2016, most of it coming from the Department of Developmental Services (DDS) and the Department of Mental Health (DMH).

Vinfen's Commonwealth revenue increased by 31.3% between FY2011 and FY2016, standing at a total of $112.1 million. **Meanwhile, spending on administration grew at an even higher rate than the increases in program revenue, rising by 42.8% over the same period.** The steady increases in both state funding and spending in other areas suggests that the lack of a living wage for direct care staff at Vinfen is a matter of choice and not of necessity.



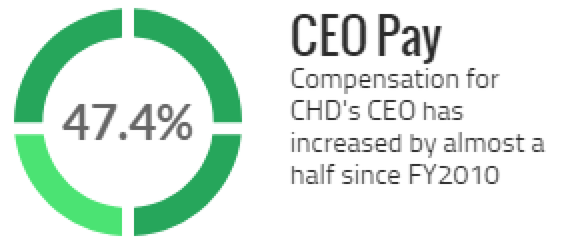
In order to pay a living wage of $15.00 to direct care staff in FY2016, Vinfen would only have needed to spend an additional $705,780 – well within the organization's net income of $3 million. Yet instead, wages for the lowest category of direct care staff grew by an anemic 9.9% over six years – or about 1.7% per year – **and the average wage remains at $13.39,** below the average offered by the providers included in this analysis.

While workers at Vinfen have struggled with low wages, CEO Bruce Bird received $387,081 from the organization in FY2016. This compensation package included a $346,695 salary with $40,386 in the category of other compensation, including a $13,707 car reimbursement.[viii] In addition to Bird's pay, Vinfen spent a total of $1.7 million on compensation for its top five executives in FY2016, with each receiving similarly generous benefits.

Center for Human Development (CHD)

CHD is the seventh largest provider in Massachusetts by total revenue size, with a budget of $93.9 million in FY2016. CHD received $65.4 million in funding from the Commonwealth of Massachusetts, with the largest share coming from the Department of Mental Health (DMH).

CHD staff in the Direct Care/Program Staff I category were paid an average hourly wage of $14.18 in FY2016. In order to pay a living wage of $15.00 to direct care staff, CHD would have needed to spend just $914,559 more in FY2016 – less than a third of the organization's $3 million net income for that year.



These wages only grew by 16.2% from FY2011 to FY2016, while the organization's total commonwealth revenue increased by 53.9% over the same period, and spending on administration grew even faster, at a rate of 55.1%. CEO compensation increased by 47.4%, and stood at $266,290 in FY2016, including a $255,043 salary and $11,247 in other compensation.

Time to Hold Provider Organizations Accountable for their State Funding

Though this report reveals disheartening examples misallocating of state resources by private sector human service agencies, it does find that the goal of $15 an hour for direct care workers is achievable now. The state must ensure that its significant spending increases for private human service agencies result in at least proportionate increases in direct care workers compensation. Amendment 257 to the Senate budget will require that providers invest 75% of state funding increases in the frontline staff caring for the Commonwealth's most vulnerable, or at least invest in wage increases such that all direct care workers reach the $15/hour benchmark.

Though $15 an hour is still far from making direct human services care a sustainable career, this measure is a critical step toward addressing the widely acknowledged workforce challenges in this growing sector.

Appendix: Summary of Provider Finances, FY2011-FY2016

	FY16	FY15	FY14	FY13	FY12	FY11	% change FY16-FY11
Total Revenue	$2,341,097,423	$2,250,599,371	$1,864,622,820	$1,778,618,744	$1,759,872,068	$1,694,871,154	38.1%
Total Expenses	$2,284,763,198	$2,195,409,362	$1,816,457,828	$1,755,708,262	$1,742,699,512	$1,660,288,043	37.6%
Total Net Income	$51,758,025	$56,053,564	$52,243,342	$27,694,183	$9,048,316	$39,012,767	32.7%
Average Net Income Margin	2.3%	2.7%	3.2%	1.1%	0.7%	2.1%	12.2%
Total Commonwealth Revenue	$1,601,732,897	$1,406,902,619	$1,196,296,676	$1,134,410,520	$1,148,900,007	$1,102,871,326	45.2%
Administration (M&G) Expense	$224,199,121	$201,965,227	$175,902,514	$169,044,893	$169,187,875	$161,623,682	38.7%
CEO Salary	$10,978,840	$9,348,533	$8,779,486	$8,551,236	$8,537,515	$8,463,359	29.7%
CEO Other Compensation	$1,474,647	$1,396,596	$1,053,509	$1,321,224	$1,027,988	$1,225,171	20.4%
CEO Total Compensation	$12,453,487	$10,745,128	$9,832,995	$9,872,460	$9,565,504	$9,688,531	28.5%
Average CEO Compensation	$239,490	$206,637	$196,660	$193,578	$187,559	$189,971	26.1%
Direct Care/Program Staff I FTE	11,562	11,924	10,493	10,408	10,369	10,049	15.1%
Direct Care/Program Staff I Wages	$326,727,246	$336,257,680	$270,412,849	$264,788,820	$259,987,337	$247,345,925	32.1%
Average Hourly Wage	$13.59	$13.56	$12.39	$12.23	$12.05	$11.83	14.8%
Total Direct Care/Program Staff I wages as a % of total expenses	14.3%	15.3%	14.9%	15.1%	14.9%	14.9%	-4.0%

[i] Commonwealth of Massachusetts Executive Office of Health and Human Services (January 2008), *EOHHS Report to Administration and Finance: Recommendations for Reforming the Purchase of Service System*, 3, Accessed 24 April 2017, http://www.mass.gov/eohhs/docs/eohhs/chapter257/report-january-2008.pdf

[ii] EOHHS (2008), 3.

[iii] Donahue Institute (2017), *Who Will Care? The Workforce Crisis in Human Services*, 8, http://www.donahue.umassp.edu/documents/Providers_Council_-_Who_Will_Care_2017.pdf

[iv] Commonwealth of Massachusetts, *UFR Audit & Preparation Manual* (2016), 113.

[v] EOHHS, "Purchase of Service Salary Reserve FY2013," Accessed 8 May 2017, http://www.mass.gov/eohhs/provider/contracting/purchase-of-service-salary-reserve-fy13.html

[vi] Seven Hills Foundation, FY2016 compensation disclosure (UFR supplement). http://ufr.osd.state.ma.us

[vii] Commonwealth of Massachusetts, *Surplus Revenues - Massachusetts State Regulations 808 CMR 1.03*, Accessed 18 May 2017, http://www.mass.gov/anf/docs/osd/policy/final808cmr1-11-4-16.pdf.

[viii] Vinfen, FY2016 compensation disclosure (UFR supplement). http://ufr.osd.state.ma.us