

Residential Habilitation Budget Reduction Option Overview

January 2026

During the 2022 legislative session, the Division of Medicaid within IDHW brought forward two distinct line-item requests impacting Residential Habilitation providers. Both were approved and appropriated by the Idaho Legislature that year.

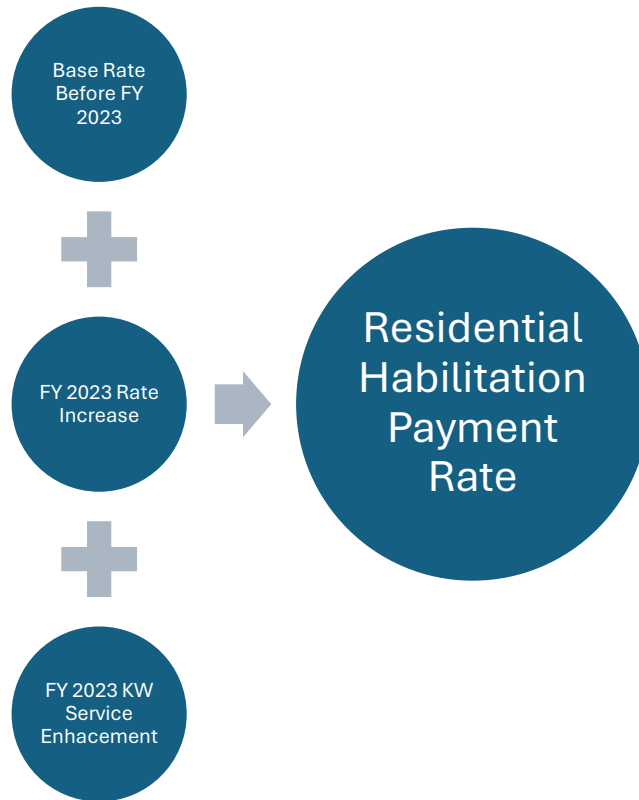
1. KW Settlement Service Enhancements
2. Rate increase for Residential Habilitation Providers

Below are descriptions of these requests from the [2022 Legislative Budget Book](#).

Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
7. KW Settlement - Svc. Enhance.				Enhanced Medicaid Plan	
<p>The Division of Medicaid requests an ongoing increase of \$66,663,200 from federal funds to implement a new budget tool for calculating individual budgets for adults with intellectual and developmental disabilities; this is a result of a recent negotiated settlement of the KW Lawsuit. The negotiated settlement requires the development of a new resource allocation model, revision of the services array, review of reimbursement rates, and establishment of service mixes by support level and living setting. This request supports compliance with the revision of the services array and service mixes. These service arrays help support Idahoans with intellectual and developmental disabilities remain in the community of their choosing.</p> <p>Analyst Note: The agency has requested the FY 2023 amount be fully covered under funds available through the American Rescue Plan Act (ARPA). The agency anticipates to shift approximately 30% or about \$20,000,000 to the General Fund by FY 2025 for this specific rate increase. Increases will likely be requested as nondiscretionary adjustments in FY 2024 and FY 2025.</p>					
Agency Request	0.00	0	0	66,663,200	66,663,200
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>66,663,200</i>	<i>66,663,200</i>

11. Provider Rate - Resid Rehab				Enhanced Medicaid Plan	
<p>The Division of Medicaid requests \$70,393,100 ongoing to support a 40% rate increase for Adult Developmental Disabilities Residential Habilitation providers. While this rate change is not directly a requirement of the KW Lawsuit negotiated settlement, the change in the service model resulting from the KW Lawsuit will impact providers. In addition to changes in the service model, Residential Rehabilitation providers are impacted by the tight labor market, resulting in a provider concern about the ability to maintain an adequate workforce under current rates. This rate increase is a result of the new Medicaid Provider Rate Review Process, which compared the basis of provider rates with the economic conditions of Idaho including issues raised by providers about the tight labor market, as well as indicators of access to services through participant complaints, time to placement with services, and other information related to gaps between the needs of the participants and the availability of services.</p> <p>Analyst Note: The agency has requested the FY 2023 amount be fully covered under funds available through the American Rescue Plan Act (ARPA). The agency anticipates to shift approximately 30% or about \$21,200,000 to the General Fund by FY 2025 for this specific rate increase. Increases will likely be nondiscretionary adjustments in FY 2024 and FY 2025.</p>					
Agency Request	0.00	0	0	70,393,100	70,393,100
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>70,393,100</i>	<i>70,393,100</i>

- In early 2022, the Division of Medicaid was on the path to implement the final pieces of the KW Settlement Agreement, culminating with the implementation of a new resource (budget) allocation model for adults with intellectual and developmental disabilities in June 2022. By late Spring 2022, plaintiff's counsel for the lawsuit brought forward new concerns with the resource allocation model; ultimately plaintiff's and IDHW returned to Federal Court over these matters during 2022. June 2022 implementation of the Settlement Agreement was postponed.
- Meanwhile, Residential Habilitation providers had anticipated being able to bill for new services and under a new reimbursement approach as had been determined through the KW Settlement Agreement work and funding requested through the KW Service Enhancement line item. During the Settlement Agreement postponement, providers expressed concern as they had changed their businesses to implement these changes and had anticipated being able to bill for new services and recoup some of these costs.
- While things played out in Federal Court and implementation of the KW Settlement Agreement was postponed, IDHW ultimately agreed to create an updated reimbursement rate for providers reflective of appropriated funding from both requests above. IDHW made clear to providers that this was a temporary measure to ensure their solvency and maintain access to services during the time of uncertainty. This reimbursement rate was implemented in November 2023 and retrospective to July 2023.



- IDHW and plaintiff’s counsel were in and out of Federal Court through 2024; wherein IDHW and representation from the OAG fought to salvage all the work done and resources spent to meet the June 2022 implementation. Ultimately, the court ordered IDHW to identify a completely different resource allocation model. This has meant that IDHW has had to go back to square one.
- Changes associated with previous resource allocation model are no longer applicable, at least not at this present time. IDHW continues to work with plaintiff’s counsel and stakeholders on identification of a new resource allocation model and associated service changes.
- Seeing that IDHW has been court ordered to take a new approach, the changes outlined in the KW Service Enhancements line item, appropriated in 2022, are no longer relevant and may be considered for removal.
- **This option is not a removal of the Residential Habilitation service.** Rather, it would reduce payment rates by removing the funding associated with the KW Service Enhancements. The new reimbursement rate would still include the rate increase appropriated in 2022 minus the 4% reduction that IDHW has implemented across Medicaid providers and services. Together these changes would result in a 10% rate reduction since September 2025.

