MEMORANDUM

JOINT BUDGET COMMITTEE

TO	Joint Budget Committee
FROM	Carolyn Kampman, JBC Staff (303-866-4959)
DATE	March 5, 2019
SUBJECT	Targeted Rate Increase for Behavioral Healthcare Providers

The Colorado Behavioral Healthcare Council (Council) has requested that the Committee consider providing funding for FY 2019-20 for a targeted rate increase for community-based behavioral healthcare providers. Specifically, the Council requests $17.1 million General Fund for a 10.0 percent increase in funding available for provider staff salaries. The request covers several line item appropriations to the Department of Human Services' (DHS') Office of Behavioral Health, as well as the appropriation to the Department of Health Care Policy and Financing (HCPF) for the Behavioral Health Capitation Program. This memorandum provides related information and suggestions for the Committee's consideration, organized as follows:

APPLICATION OF THE COMMITTEE'S COMMON PROVIDER RATE POLICY

Table 1 provides a summary of the recommended funding increases that are included in my Staff Figure Setting documents for each of these program areas (dated March 5, 2019) based on the Committee's common policy for an across-the-board 1.0 percent increase.

TABLE 1: FY 2019-20 FUNDING INCREASE BASED ON THE COMMITTEE'S COMMUNITY PROVIDER RATE COMMON POLICY (1.0%)

	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS
DHS, Office of Behavioral Health, All Line Item Appropriations for Community-Based Behavioral Health Services*	$1,451,113	$1,037,727	$345,206	$68,180	$0
HCPF, Community-based Behavioral Health Services, Behavioral Health Fee-for-service Payments	93,697	21,621	4,879	0	67,197
TOTAL	**$1,544,810**	**$1,059,348**	**$350,085**	**$68,180**	**$67,197**

*This includes all line item appropriations listed in the table on page 19 of the Staff Figure Setting document, and excludes all appropriations directly related to the Mental Health Institutes.

APPLICATION OF A TARGETED RATE INCREASE FOR DHS AND MEDICAID CAPITATION

Historically, the common policy provider rate increase has not applied to the HCPF "Behavioral Health Capitation Payments" line item appropriation. HCPF regularly adjusts per-member-per-month rates for each Medicaid eligibility category and each region based on actual service utilization and expenditures, as well as expected inflationary increases based on historical rate experience.

Due to the broad array of services that community mental health centers (CMHCs) are required to provide for Medicaid clients, and the "safety net" role they serve in their communities (e.g., providing crisis services), the process HCPF uses to set rates for CMHC services differs from the process used to set rates for other independent behavioral health providers. HCPF essentially calculates the expected value of clients' utilization of a CMHC's services. HCPF calculates the price for a unit of service based on a CMHC's actual allowable expenditures from all revenue sources, normalized to reflect the intensity of services provided. Based on this rate setting process, if a CMHC is able to increase staff salaries, those additional costs are then reflected in future base unit rates. If a CMHC is not able to increase staff salaries, there are not additional employee-related expenses to build into future base unit rates. Over time, this process results in base unit rates that lock in disparities in CMHCs' ability to cover the costs of employee compensation.

HCPF staff indicate that if the General Assembly provides additional funding to increase compensation for CMHCs' staff, it is possible to build that funding into the calculation of base unit rates. HCPF would need to justify the proposed increases for each region to the federal Centers for Medicare and Medicaid Services (CMS). In terms of timing, HCPF is required to submit proposed Capitation rates to CMS by March 31 if it intends to implement the rates July 1.

Should the Committee choose to fund a targeted rate increase for community-based behavioral health providers, staff recommends that the rate increase apply to:

- **both the Medicaid Capitation program and the applicable line item appropriations to the DHS' Office of Behavioral Health;**
- **the recommended FY 2019-20 appropriation for the Medicaid Capitation Payments line item appropriation, including all applicable fund sources; and**
- **the base FY 2019-20 appropriations and fund sources staff utilized to calculate the 1.0 percent rate increase for DHS community-based behavioral health services.**

In addition, should the Committee choose to fund a targeted rate increase, staff requests permission to work with HCPF staff to develop a Long Bill footnote that states the legislative intent in a manner that is consistent with CMS requirements concerning managed care rates.

FACTORS DRIVING THE REQUEST FOR A TARGETED RATE INCREASE

The Council identifies three primary factors that underlie the request. Staff describes each of these factors below.

Annual increases for community provider rates have not kept pace with inflation. The Council provides a chart that compares the annual community provider rate increases that were approved over the last 20 years to three other indices:

- the average Salary Survey increase for State employees (2.3 percent CAGR);
- the Denver-Boulder-Greeley CPI-U (2.4 percent CAGR); and
- the Denver-Boulder-Greeley Medical CPI (3.8 percent CAGR).

For each of the above indices, staff has included the compound annual growth rate (CAGR) from 1999 to 2018. These rates compare to a 1.1 percent CAGR for the community provider rate increase.

The Council's chart indicates that over this same 20-year period, community provider rates have increased by 25.9 percent (cumulatively), compared to cumulative increases of 57.8 percent for Salary Survey, 61.3 percent for CPI-U, and 110.6 percent for Medical CPI. Based on the comparison of the 61.3 percent increase in the CPI-U and the 25.9 percent increase in provider rates, the Council indicates that, "Over the last 20 years, Colorado's Community Programs have lost 35.4% of their purchasing power as compared to the Denver area Consumer Price Index".

Community-based providers are experiencing significant staff turnover. The Council points out that DHS has requested significant funding increases in recent years to increase salaries for State employees who provide direct care in order to reduce high turnover and vacancy rates. DHS reported the following vacancy and turnover rates as part of a FY 2018-19 request (R1a) to increase salaries for direct care staff at the Department's residential facilities:

- Average vacancy rates of 16.1 percent for the Mental Health Institutes (Institutes), Veterans Community Living Centers, and Division of Youth Services facilities in 2017. The Institutes had vacancy rates of 10.5 percent (Ft. Logan) and 15.2 percent (Pueblo).
- Average turnover rates of 22.6 percent for the same set of DHS facilities in FY 2016-17. The Institutes had turnover rates of 16.7 percent (Ft. Logan) and 15.5 percent (Pueblo).

The Department attributed the high vacancy and turnover rates to salaries that were significantly below prevailing market wage (an average shortfall of 19.8 percent). The General Assembly provided additional funding for the Regional Centers for People with Developmental Disabilities for salary increases DHS implemented in November 2016. For the Institutes, the General Assembly provided additional funding for two sets of salary increases:

- In November 2017, DHS increased salaries for three Nurse classifications by an average of 18 percent to 23 percent; and
- In July 2018, DHS increased salaries for all other direct care classifications to match prevailing market wages.

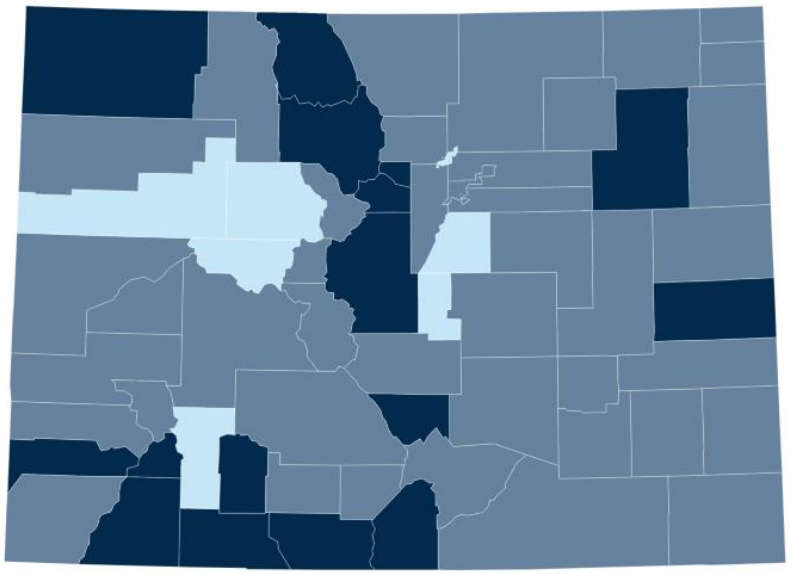
The Council indicates that turnover rates for Community Mental Health Centers are even higher, on average, than those experienced by DHS. Specifically, the Council reports average turnover rates of 30.0 percent for Nurses, 29.8 percent for Social Workers/Counselors, and 25.8 percent for other direct care staff.

Average salaries paid to Community Mental Health Center staff are significantly below salaries paid to State employees. The Council provides data indicating significant differences between the average salaries paid for like positions in FY 2017-18. Specifically, the Council identifies gaps of 10 percent for Clinical Therapists, 14 percent for Social Workers/Counselors, and 26 percent for Psychologists. Based on the significant funding increases approved by the General Assembly for direct care staff at the Institutes, this pay gap will increase in FY 2018-19.

Finally, staff notes that *national data underscores the workforce challenges currently faced by all behavioral health providers in Colorado*. The federal Department of Health and Human Services' Health Resources and Services Administration collects data concerning the healthcare workforce, and identifies areas experiencing a workforce shortage. The following two maps depict areas in Colorado that have an inadequate number of healthcare providers. The first map depicts primary care shortage

areas, and the second map depicts mental health shortage areas. Fifty-five counties are considered mental health professional shortage areas, and seven counties have mental health professional shortages in some parts of the county.

Health Professional Shortage Areas: Primary Care, by County, 2017 - Colorado

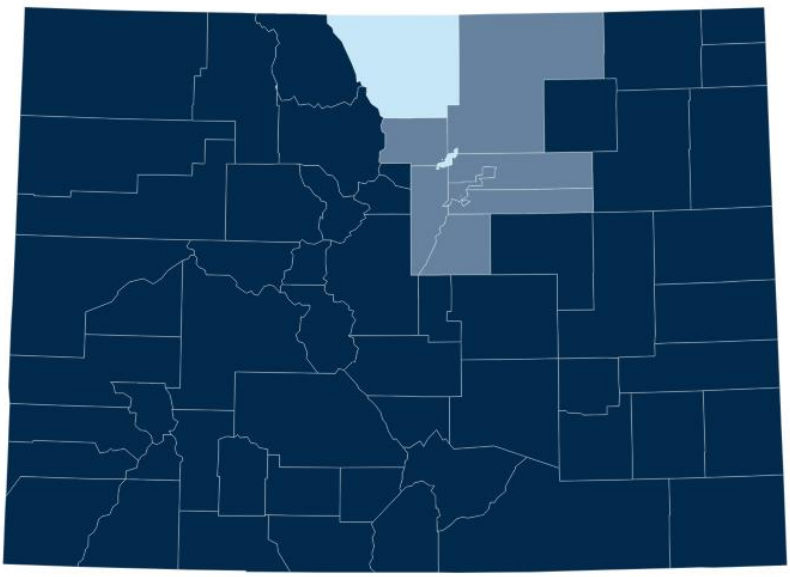


None of county is shortage area | Part of county is shortage area | Whole county is shortage area

RHIhub Rural Health Information Hub

Source: data.HRSA.gov, 2017.

Health Professional Shortage Areas: Mental Health, by County, 2017 - Colorado



None of county is shortage area | Part of county is shortage area | Whole county is shortage area

RHIhub Rural Health Information Hub

Source: data.HRSA.gov, 2017.

FUNDING REQUIRED FOR VARIOUS TARGETED RATE INCREASES

Based on the significant differences between State and community provider salaries, the significant turnover rates, and the overall behavioral health workforce shortage, staff believes that a targeted rate increase is warranted for behavioral health providers. Should the Committee choose to provide funding for a targeted rate increase, staff believes that the overall methodology proposed by the Council for calculating a funding increase is reasonable. However, staff believes that any funding available for a targeted rate increase should be utilized in a manner that mitigates rate disparities that stem from differences in the variety and availability of CMHC revenue sources rather than actual differences in market rate salaries in each region.

Table 2 provides a summary of staff's calculation of the cost of a targeted rate increase for community-based behavioral healthcare providers. The top portion of the table identifies the applicable base appropriation for each Department. The bottom portion of the table identifies the cost of targeted rate increases ranging from 1.0 percent to the proposed 10.0 percent. **Based on staff's calculations, the proposed 10.0 percent targeted increase would require $17.4 million General Fund, $4.4 million cash funds** (including $2.5 million from the Marijuana Tax Cash Fund), **and $23.5 million federal Medicaid funds.**

TABLE 2: FUNDING REQUIRED FOR VARIOUS TARGETED RATE INCREASES FOR BEHAVIORAL HEALTH PROVIDERS

	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	FEDERAL FUNDS
FY 2019-20 Base Funding for Calculating Targeted Rate Increase				
DHS, Office of Behavioral Health, Various Line Item Appropriations	$138,293,406	$103,772,861	$34,520,545	$0
Employee compensation expenses (72.3% of total)	**99,986,133**	**75,027,779**	**24,958,354**	**0**
HCPF, Community-based Behavioral Health Services, Behavioral Health Capitation Payments	$704,256,669	$197,108,789	$37,397,018	$469,750,862
Community mental health center share of Capitation expenses (69.4% of total)	488,754,128	136,793,500	25,953,530	326,007,098
Employee compensation expenses (72.3% of total)	**353,369,235**	**98,901,700**	**18,764,403**	**235,703,132**
Total Base Funding	**$453,355,367**	**$173,929,479**	**$43,722,757**	**$235,703,132**
Funding Required for Various Rate Increases				
1.0%	$4,533,554	$1,739,295	$437,228	$2,357,031
2.0%	9,067,108	3,478,590	874,455	4,714,063
3.0%	13,600,661	5,217,884	1,311,683	7,071,094
4.0%	18,134,214	6,957,179	1,748,910	9,428,125
5.0%	22,667,769	8,696,474	2,186,138	11,785,157
6.0%	27,201,322	10,435,769	2,623,365	14,142,188
7.0%	31,734,876	12,175,064	3,060,593	16,499,219
8.0%	36,268,430	13,914,358	3,497,821	18,856,251
9.0%	40,801,983	15,653,653	3,935,048	21,213,282
10.0%	45,335,537	17,392,948	4,372,276	23,570,313