

MEMORANDUM

TO: Joint Budget Committee
FROM: Amanda Bickel and JBC Staff
SUBJECT: Community Provider Rates Figure Setting FY 2013-14
DATE: January 30, 2013

The JBC has historically made a determination on a common figure setting policy to be applied for community provider rate increases. The "community provider" common policy applies to selected line items in the Departments of Corrections, Human Services, Health Care Policy and Financing, and Public Safety that are used to fund services that might otherwise be delivered by state FTE. The attached spreadsheets identify the major programs commonly affected, *e.g.*, private prisons and child welfare services. Based on Committee decisions, the rate has historically been applied by staff in each respective community provider budget's figure setting recommendation to the JBC.

For FY 2013-14, the Executive request includes a 1.5 percent community provider rate increase. This is the first increase requested since the recession began in FY 2008-09. Provider rate increases were initially provided for FY 2008-09, but these increases were largely reversed through supplemental action and reductions in the FY 2009-10 and FY 2010-11 budgets. The specific reductions varied by department and program. No rate adjustments were requested or adopted for FY 2011-12 or FY 2012-13. The attached information should enable the Committee to:

- Compare the range of actions taken to-date across departments and programs;
- Establish a common policy if desired;
- Estimate the additional savings/expenditures that would result from further rate adjustments.

Summary

As reflected in the spreadsheets:

- **The Executive requests a 1.5 percent provider rate increase for FY 2013-14, at an estimated cost of \$25.8 million General Fund.** (Due to different base-assumptions, JBC staff estimates a slightly lower cost increase of 25.7 million for a 1.5 percent increase.) The proposed 1.5 percent increase matches the requested increase for state staff salary survey.

For comparison:

- **A 1.0 percent increase to provider rates is estimated to cost \$17.1 million General Fund.**
- **A 1.7 percent increase--consistent with the projected CY 2012 Denver-Boulder-Greeley CPI--is estimated to cost \$29.2 million General Fund.**
- Additional multiples at 0.5 percent increments, up to 5.0 percent, are included in the spreadsheet.

All figures reflect an estimate for across-the-board costs. *If the Committee adopts a common policy, staff will provide detailed calculations during figure setting, and the Committee will have the opportunity to adjust its action for particular programs at that time.*

Summary of Rate Adjustments Approved Since FY 2008-09 Long Bill

	FY 2008-09 Long Bill	FY 2008-09 Final Appropriation with supplemental cuts	FY 2009-10 Final Action including supplemental cuts	FY 2010-11 Final Action	Total Reductions Enacted from FY 2008-09 Long Bill to FY 2011-12. (No FY 2011-12 or FY 2012-13 changes were requested or adopted.)
Corrections	Add 4.25 percent (private prisons); 1.5 percent other line items	Eliminate 4.25 percent for private prisons mid-year, returning rates to FY 07-08 level. Retain other adjustments.	Retain rates at level in place at end of FY 2008-09 (same as FY 2007-08 for private prisons; same as FY 2008-09 for others).	No further rate changes.	Private prison rates held at FY 2007-08 level (level in place at end of FY 2008-09); other rates held at FY 2008-09 level.
Human Services	Add 1.5 percent to most community provider programs	No further adjustments. Retain FY 2008-09 rates as originally enacted.	Selected reductions: --youth corrections contract rate reduction of 2.0 percent October 1, 2009; --Developmental disability Medicaid waiver rate reduction of 2.5 percent applied October 1, 2009	2.0 percent rate reductions for most programs. --Prior youth corrections 2.0 percent reduction expanded to other line items; --Developmental disabilities 2.0 percent additional cut compounds with FY 2009-10 reduction; -- Child welfare services rate cut of 1.5 percent - 2.0 percent, depending on line item.	Cuts from FY 2008-09 Long Bill generally 2.0 percent (returning rates to 0.5 percent below FY 2007-08 level). Exceptions: reduction of 4.5 percent for developmental disability Medicaid rates; child welfare rate cut limited to 1.5 percent for largest line item.
Health Care Policy and Financing	Various increases provided, including 1.5 percent to hospitals and home and community-based services	No further adjustments. Retained FY 2008-09 rates as originally enacted.	2.0 percent reduction to most line items (acute care and HCBS) effective July 1, 2009. Additional 1.5 percent September 1, 2009. Additional 1.0 percent cut December 1, 2009.	Additional 1.0 percent reduction effective July 1, 2010.	Cuts of 5.5 percent to most programs from FY 2008-09 Long Bill level to FY 2010-11 final action.
Public Safety	Various adjustments provided with total impact of about 1.5 percent.	No further adjustments. Retained FY 2008-09 rates as originally enacted.	Retain rates at level in place in FY 2008-09.	No rate changes.	No changes from FY 2008-09 Long Bill.

Common Policy Spreadsheets

For purposes of assisting the Committee in deciding upon any adjustments to provider rates in the FY 2013-14 budget, staff has prepared spreadsheets containing the following:

- The FY 2013-14 Executive Request and an explanation of the policy requested (1.5 percent change in all departments);
- The base continuing funding for various community providers for FY 2013-14 per JBC staff calculations. *Note that the staff base calculation in some cases differs from the base used for the Executive request. This is generally because the request included the impact of the provider rate increase on other executive requests (decision items) which have not yet been approved by the Committee.*
- The General Fund impact of each 0.5 percent increase or decrease on the staff-calculated base for FY 2013-14.

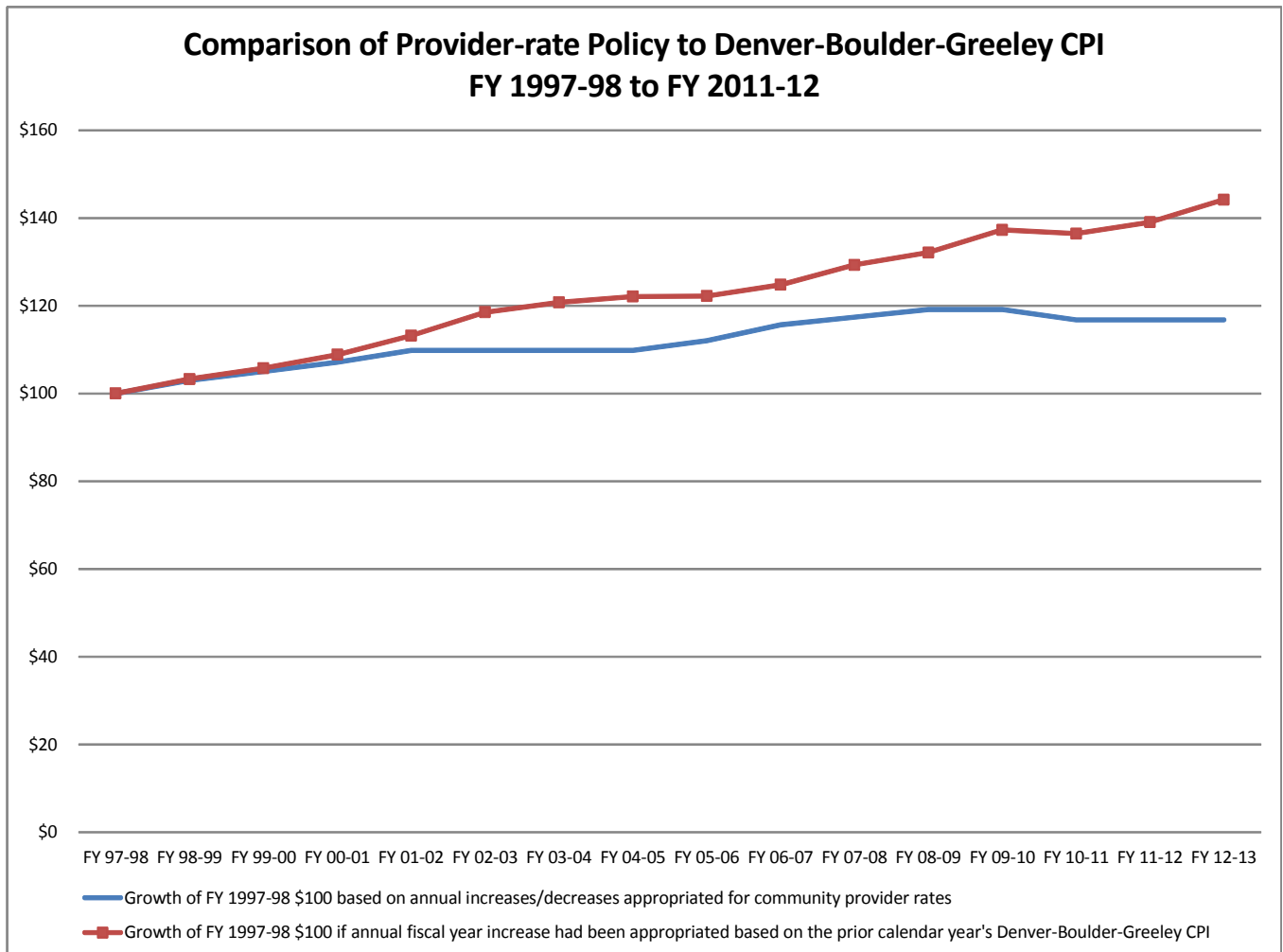
Background: Inflationary Increases

The table below reflects the projected Denver-Boulder-Greeley Consumer Price Index (CPI) for recent calendar and fiscal years, based on Legislative Council Staff's December 2012 economic forecast.

Calendar Year	Denver-Boulder-Greeley CPI	Fiscal Year	Denver-Boulder-Greeley CPI
CY 2009 Actual	(0.6%)	FY 2008-09 Actual	2.4%
CY 2010 Actual	1.9%	FY 2009-10 Actual	0.1%
CY 2011 Actual	3.7%	FY 2010-11 Actual	2.7%
CY 2012 Forecast	1.7%	FY 2011-12 Actual	3.0%
CY 2013 Forecast	2.1%	FY 2012-13 Forecast	1.9%
CY 2014 Forecast	2.8%	FY 2013-14 Forecast	2.6%

Staff Observations

- Community provider rates for most programs are now below FY 2007-08 levels.
- For CY 2009 there was modest deflation (-0.6 percent), rather than inflation. However, since that time, actual and forecasted inflation has been positive, with actual inflation of 1.9 percent for CY 2010, 3.7 percent for CY 2011, and forecast inflation of 1.7 percent for CY 2012.
- Over time, failure to provide adequate provider rates is likely to result in the erosion of community services, particularly if labor markets improve and workers are able to command salary increases. Over time, if the State is unable to provide adequate rates, it may need to adjust providers' contractual obligations. Since FY 1999-00 (the second year the current rate setting approach was used), community provider rate increases--when provided at all--have often been lower than inflation. The chart below compares the increases that would have been provided on \$100 FY 1997-98 base applying community provider rate common policy versus applying the Denver-Boulder-Greeley consumer price index from the prior calendar year. Note: for FY 2009-10 and FY 2010-11, the Department of Human Services typical reduction is shown for the provider rate policy amount, although actual policy varied by department.



History of the Community Provider Rate Increase

Through FY 1997-98, the Committee provided community providers with cost of living increases based on statewide salary survey increases for personal services and state inflationary increases for operating expenses. This often led to increases of over five percent per year, since community provider personal services constitute over 60 percent of most community providers' budgets and often more than this. This approach was also cumbersome and difficult to apply accurately. Therefore, based on a staff recommendation for FY 1998-99, the Committee moved to a standard percentage increase for community providers that was applied to the entire community provider base. The first year the rate was applied, community providers received an increase at approximately the projected rate of inflation (although actual inflation was ultimately lower). Since that time, rate increases have typically fallen below the actual rate of inflation in the prior calendar year, although there have been some exceptions.

Community Provider Rates

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Year	Community Provider Increase/Decrease		State Department Increase/Decrease (base building)*		Denver-Boulder CPI for prior calendar year
FY 94-95	Personal Services	4.5%	Personal Services	4.5%	CY 93
	Food inflation	1.8 %	Food inflation	3.6%	4.2%
	Medical inflation	3.3 %	Medical inflation	10.2%	
FY 95-96	Personal Services	6.0%	Personal Services	4.0%	CY 94
	Food inflation	4.2%	Food inflation	4.2%	4.4%
	Medical inflation	4.8%	Medical inflation	9.6%	
FY 96-97	Personal Services	5.0%	Personal Services	4.3%	CY 95
	Food inflation	2.2%	Food inflation	1.0%	4.3%
	Medical inflation	4.2%	Medical inflation	4.2%	
	Other operating	(1.0%)	Other operating	(1.0%)	
FY 97-98	Personal Services	5.0%	Personal Services	3.9%	CY 96
	Food inflation	1.7%	Food inflation	1.7%	3.5%
	Medical inflation	3.7%	Medical inflation	3.7%	
FY 98-99	Total base increase	3.0%	Personal Services	6.2%	CY 97
			Food inflation	1.6%	3.3%
			Medical inflation	3.3%	
FY 99-00	Total base increase	2.0%	Personal Services	5.6%	CY 98
			Food inflation	2.1%	2.4%
			Medical inflation	3.2%	
			Other operating	(1.0%)	
FY 00-01	Total base increase	2.0%	Personal Services	6.0%	CY 99
			Food inflation	0.0%	2.9%
			Medical inflation	0.0%	
FY 01-02	Total base increase	2.5%	Personal Services	7.4%	CY 00
			Food inflation	2.8%	4.0%
			Medical inflation	5.8%	
FY 02-03	Total base increase	0.0%	Personal Services	6.2%	CY 01
			Food inflation	0.0%	4.7%
			Medical inflation	0.0%	
FY 03-04	Total base increase	0.0%	Personal Services	0.0%	CY 02
			Food inflation	0.0%	1.9%
			Medical inflation	0.0%	
FY 04-05	Total base increase	0.0%	Personal Services	3.3%	CY 03
			Food inflation	0.0%	1.1%
			Medical inflation	0.0%	
FY 05-06	Total base increase	2.0%	Personal Services	3.0%	CY 04
			Food inflation	2.9%	0.1%
			Medical inflation	2.5%	
FY 06-07	Total base increase	3.25%	Personal Services	2.6%	CY 05
			Food inflation	2.1%	2.1%
			Medical inflation	2.0%	

Community Provider Rates

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Year	Community Provider Increase/Decrease	State Department Increase/Decrease (base building)*	Denver-Boulder CPI for prior calendar year
FY 07-08	Total base increase 1.5%	Personal Services 4.75% Food inflation 1.8% Medical inflation 2.0%	CY 06 3.6%
FY 08-09	Total base increase 1.5%	Personal Services 4.28% Food inflation 0.0% Medical inflation 0.0%	CY 07 2.2%
FY 2009-10	Total base decrease Various	Personal Services** 0.0% Food inflation 0.0% Medical inflation 0.0%	CY 08 3.9%
FY 2010-11	Total base decrease Various	Personal Services** 0.0% Food inflation 0.0% Medical inflation 0.0%	CY 09 (0.6%)
FY 2011-12	Total base change 0.0%	Personal Services** 0.0% Food inflation 0.0% Medical inflation 0.0%	CY 10 1.9%
FY 2012-13	Total base change 0.0%	Personal Services** 0.0% Food inflation 0.0% Medical inflation 0.0%	CY 11 3.7%

*State personal services increases have historically been based on the average salary survey increase for the given year plus the average of 2.2 percent through FY 2001-02 for anniversary increases. Beginning in FY 2002-03, the State shifted to a performance based pay approach (PBP). Figures shown from FY 2002-03 forward include both salary survey and PBP.

**Temporary reductions to state employee compensation and personal services appropriations were taken in FY 2009-10, FY 2010-11, and FY 2011-12 as follows:

FY 2009-10 overall reduction of 1.82 percent to General-funded personal services line items, redistributed and taken through furloughs and vacancy savings. Reduction was one-time and not base-building.

FY 2010-11 overall reduction of 2.9 percent, based on a requirement that staff to contribute an additional 2.5 percent share of retirement (PERA) contributions and a reduction to selected General-funded personal service line items. Reductions were one-time and not base-building.

FY 2011-12 - increased employee PERA contribution of 2.5 percent was continued in FY 2011-12, but eliminated for FY 2012-13.

FY 2013-14 Community Provider Rate Setting

Rate/Program Area	DEPARTMENT REQUEST			Estimated Continuing Base for FY 2013-14 Provider Rate Calculation	
	Total Funds	Net General Fund	FY 2013-14 Request and Prior Year History	Total Funds	Net General Fund
Corrections*					
Payments to Local Jails	154,776	154,773	1.5% requested. Previously, rates at level in place at end of FY 2008-09 (same level as FY 2007-08 for private prisons and FY 2008-09 for other providers).	10,318,400	10,318,200
Pre-release parole revocation facilities	174,351	174,351		11,623,400	11,623,400
Community Corrections Programs	53,202	53,202		3,546,800	3,546,800
In-State Private Prisons	<u>955,436</u>	<u>955,436</u>		<u>63,695,733</u>	<u>63,695,733</u>
Subtotal - Corrections	1,337,765	1,337,762		78,865,933	78,865,933
Human Services					
County Administration	853,693	345,030	1.5% requested. Previously, rates held flat since FY 2010-11 reductions. Most rates were reduced by 2.0 percent in FY 2010-11, bringing them to 0.5 percent below the FY 2007-08 level. For developmental disability (DD) Medicaid waiver programs, the FY 2010-11 reduction compounded with an FY 2009-10 reduction for a 4.5 percent total reduction. For child welfare services, the rate reduction was 1.5 percent for the largest line item and 2.0 percent for other line items.	56,912,867	23,002,000
Child Welfare	5,686,786	3,498,795		379,119,067	233,253,000
Child Care	1,137,081	204,063		75,805,400	13,604,200
Mental Health and Alcohol and Drug Abuse Svcs.	1,107,317	1,048,721		73,821,133	69,914,733
Developmental Disabilities	5,844,801	3,147,993		374,512,457	202,221,680
Youth Corrections	<u>916,572</u>	<u>869,252</u>		<u>61,104,800</u>	<u>57,950,133</u>
Subtotal - Human Services	15,546,250	9,113,854		1,021,275,724	599,945,746
Health Care Policy and Financing					
Medical and Long-term Care Services	33,054,416	14,547,876	1.5% requested. Previously, most acute care and home-and community-based program rates reduced by 5.5 percent from FY 2008-09 level.	2,203,627,733	969,858,400
Mental Health Services (fee-for-service)	<u>62,214</u>	<u>31,107</u>		<u>4,693,066</u>	<u>2,346,547</u>
Subtotal - Health Care Policy	33,116,630	14,578,983		2,208,320,799	972,204,947
Public Safety					
Community Corrections Programs	841,645	803,204	1.5% requested. Previously no change since FY 2008-09. (Provider per-diem is \$37.74 compared to \$37.72 in FY 2001-02.)	56,109,667	53,546,933
Total :	\$50,842,290	\$25,833,803		\$3,364,572,123	\$1,704,563,559

*The GF impacts for Pre-release Parole Revocation Facilities and In-State Private Prisons assume that 3900 offenders will remain in these institutions during FY 2012-13, the approximate number that are currently there. If the number of offenders declines, the cost will be proportionately less.

**Differences between the request and the staff calculation for a 1.5% increase are based on different assumptions about the base amount. In general, the base calculated by staff (unlike that calculated by the Executive) does not include other requested increases in the base for FY 2013-14.

FY 2013-14 Community Provider Rate Setting

Rate/Program Area	GF Impact of Each 0.5% Increase or Decrease in Base - JBC Staff Calculation						
	0.5%	1.0%	1.5%**	2.0%	2.5%	3.0%	3.5%
Corrections*							
Payments to Local Jails	\$51,591	\$103,182	\$154,773	\$206,364	257,955	\$309,546	\$361,137
Pre-release parole revocation facilities	58,117	116,234	174,351	232,468	290,585	348,702	406,819
Community Corrections Programs	17,734	35,468	53,202	70,936	88,670	106,404	124,138
In-State Private Prisons	<u>318,479</u>	<u>636,957</u>	<u>955,436</u>	<u>1,273,915</u>	<u>1,592,393</u>	<u>1,910,872</u>	<u>2,229,351</u>
Subtotal - Corrections	445,921	891,841	1,337,762	1,783,683	2,229,603	2,675,524	3,121,445
Human Services							
County Administration	115,010	230,020	345,030	460,040	575,050	690,060	805,070
Child Welfare	1,166,265	2,332,530	3,498,795	4,665,060	5,831,325	6,997,590	8,163,855
Child Care	68,021	136,042	204,063	272,084	340,105	408,126	476,147
Mental Health and Alcohol and Drug Abuse Svcs.	349,574	699,147	1,048,721	1,398,295	1,747,868	2,097,442	2,447,016
Developmental Disabilities	1,011,108	2,022,217	3,033,325	4,044,434	5,055,542	6,066,650	7,077,759
Youth Corrections	<u>289,751</u>	<u>579,501</u>	<u>869,252</u>	<u>1,159,003</u>	<u>1,448,753</u>	<u>1,738,504</u>	<u>2,028,255</u>
Subtotal - Human Services	2,999,729	5,999,457	8,999,186	11,998,915	14,998,644	17,998,372	20,998,101
Health Care Policy and Financing							
Medical and Long-term Care Services	4,849,292	9,698,584	14,547,876	19,397,168	24,246,460	29,095,752	33,945,044
Mental Health Services (fee-for-service)	<u>11,733</u>	<u>23,465</u>	<u>35,198</u>	<u>46,931</u>	<u>58,664</u>	<u>70,396</u>	<u>82,129</u>
Subtotal - Health Care Policy	4,861,025	9,722,049	14,583,074	19,444,099	24,305,124	29,166,148	34,027,173
Public Safety							
Community Corrections Programs	267,735	535,469	803,204	1,070,939	1,338,673	1,606,408	1,874,143
Total :	\$8,574,409	\$17,148,818	\$25,723,226	\$34,297,635	\$42,872,044	\$51,446,453	\$60,020,862

FY 2013-14 Community Provider Rate Setting	Each 0.5% Increase or Decrease in Base - JBC Staff Calculation		GF Impact of Increase at Forecasted CY 2012 Denver-Boulder-Greeley CPI
	Rate/Program Area	4.5%	5.0%
Corrections*			
Payments to Local Jails	\$464,319	\$515,910	\$175,409
Pre-release parole revocation facilities	523,053	581,170	197,598
Community Corrections Programs	159,606	177,340	60,296
In-State Private Prisons	<u>2,866,308</u>	<u>3,184,787</u>	<u>1,082,827</u>
Subtotal - Corrections	4,013,286	4,459,207	1,516,130
Human Services			
County Administration	1,035,090	1,150,100	391,034
Child Welfare	10,496,385	11,662,650	3,965,301
Child Care	612,189	680,210	231,271
Mental Health and Alcohol and Drug Abuse Svcs.	3,146,163	3,495,737	1,188,550
Developmental Disabilities	9,099,976	10,111,084	3,437,769
Youth Corrections	<u>2,607,756</u>	<u>2,897,507</u>	<u>985,152</u>
Subtotal - Human Services	26,997,559	29,997,287	10,199,077
Health Care Policy and Financing			
Medical and Long-term Care Services	43,643,628	48,492,920	16,487,593
Mental Health Services (fee-for-service)	<u>105,595</u>	<u>117,327</u>	<u>39,891</u>
Subtotal - Health Care Policy	43,749,223	48,610,247	16,527,484
Public Safety			
Community Corrections Programs	2,409,612	2,677,347	910,298
Total :	\$77,169,679	\$85,744,088	\$29,152,989