

MEMORANDUM

TO: Joint Budget Committee
FROM: Amanda Bickel and JBC Staff
SUBJECT: Community Provider Rates Figure Setting FY 2012-13
DATE: January 24, 2012

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.

Since the budget crisis began in FY 2008-09, the Committee has not applied provider rate adjustments consistently across departments. Reductions proposed by the Executive and enacted by the General for FY 2008-09 and FY 2009-10, and FY 2010-11 varied considerably by department, and no rate adjustments were requested or adopted for FY 2011-12. As for FY 2011-12, **no rate adjustments have been proposed by the Executive for 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 if these are required for budget balancing.

Summary

As reflected in the spreadsheets:

- **A 1.0 percent increase/decrease to provider rates provides estimated costs/savings of \$18.5 million General Fund.**
- This figure *includes* adjustments in Health Care Policy and Financing that have not always been included in common policy calculations.
- This reflects an estimate for across-the-board costs or savings. For some programs, additional percentage cuts may not be feasible, *e.g.*, due to federal restrictions or actuarial requirements. 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 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 2012-13 budget, staff has prepared spreadsheets containing the following:

- The FY 2012-13 Executive Request and an explanation of the policy requested (0 percent change in all departments);
- The base continuing funding for various community providers for FY 2012-13 per JBC staff calculations;
- The General Fund impact of each 0.5 percent increase or decrease on the staff-calculated base for FY 2012-13.

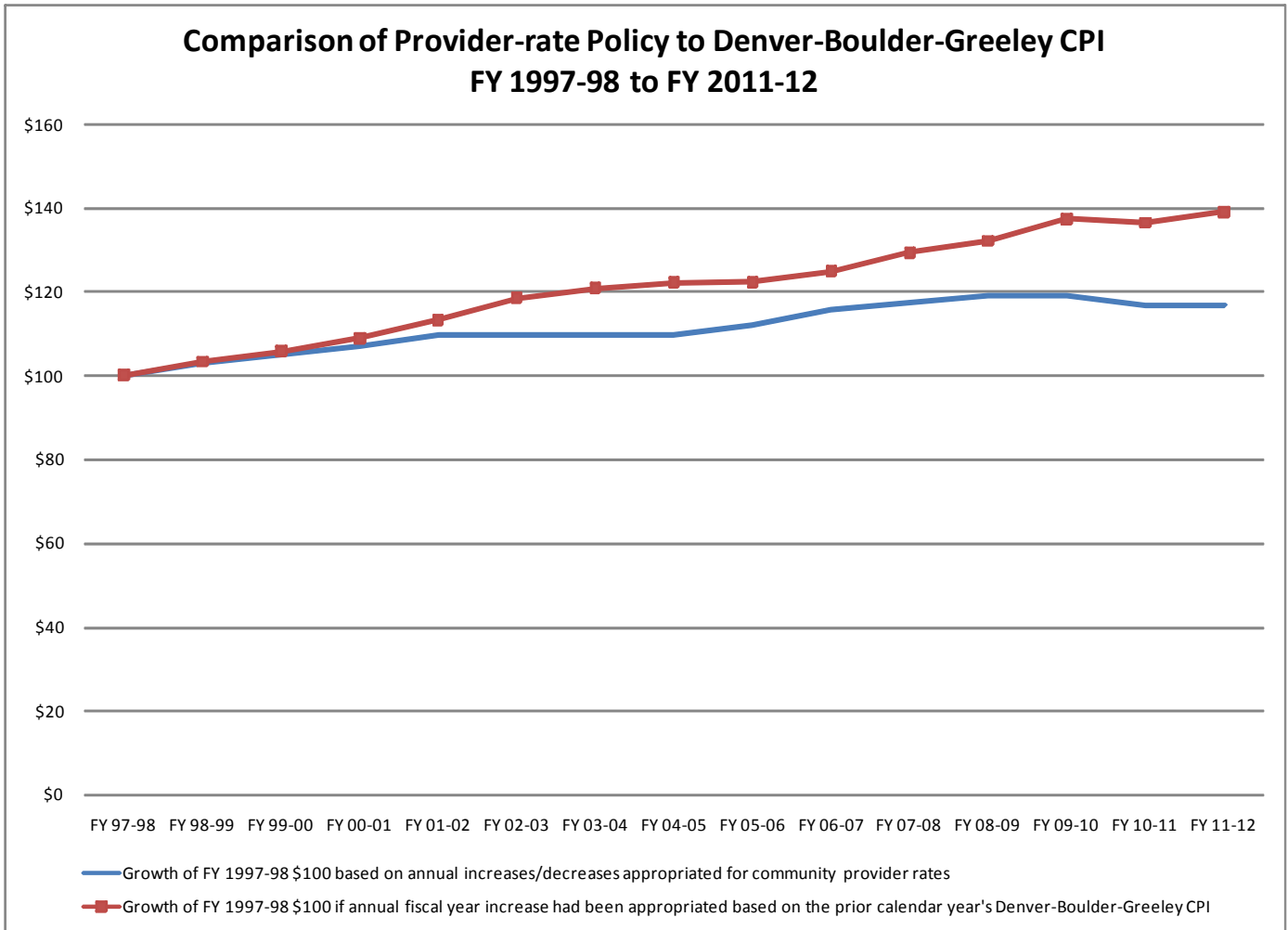
Background: Inflationary Increases

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 2011 economic forecast.

Calendar Year	Denver-Boulder-Greeley CPI	Fiscal Year	Denver-Boulder-Greeley CPI
CY 2009 Actual	(0.6%)	FY 2008-09 Actual	1.7%
CY 2010 Actual	1.9%	FY 2009-10 Actual	0.5%
CY 2011 Forecast	4.1%	FY 2010-11 Actual	2.8%
CY 2012 Forecast	3.7%	FY 2011-12 Forecast	4.3%
CY 2013 Forecast	3.4%	FY 2012-13 Forecast	3.3%

Staff Observations

- Community provider rate reductions are a reasonable component of budget-balancing. However, the capacity of community providers to absorb cuts is limited if their responsibilities are not changed. For most programs, absolute rates 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, and relatively high inflation of 4.1 percent is now forecast for calendar year 2011.
- 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). For FY 1999-00, FY 2000-01, and FY 2001-02 the Committee funded community providers at less than the projected rate of inflation. An increase awarded in FY 2002-03 was subsequently retracted, due to revenue shortfalls. No increases were provided for FY 2003-04 or FY 2004-05. A 2.0 percent increase was provided for FY 2005-06, a 3.25 percent increase was provided for FY 2006-07, and 1.5 percent increases were provided for FY 2007-08 and FY 2008-09. Starting in FY 2009-10, provider rates began to be reduced. Most rates are now at or below FY 2007-08 levels.

Community Provider Rates

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

Community Provider Rates

Year	Community Provider Increase/Decrease	State Department Increases*	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*** (1.82)% Food inflation 0.0% Medical inflation 0.0%	CY 08 3.9%
FY 2010-11	Total base decrease Various	Personal Services**** (2.9)% 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%

*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.

**These amounts exclude amounts set aside for SAED to reduce the Public Employees' Retirement Association's unfunded liability.

***Reflects 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.

****Reflects 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 (\$5.3 million savings). Reductions were one-time and not base-building. The PERA reduction was continued for an additional year in FY 2011-12. The other reductions to personal services line items were not.

FY 2012-13 Community Provider Rate Setting

Rate/Program Area	DEPARTMENT REQUEST - Rates Changes from FY 2012-13			JBC Staff - Estimated Continuing Base for FY 2012-13 Provider Rate Calculation	
	Total Funds	Net General Fund	FY 2011-12 Explanation: Request	Total Funds	Net General Fund
Corrections					
Jail Backlog	0	0	No change requested. Request holds rates at level	7,898,576	7,898,576
Pre-release Prison	0	0	in place at end of FY 2008-09 (same level as FY	12,731,933	12,731,933
Community Corrections Programs	0	0	2007-08 for private prisons and FY 2008-09 for	59,715,738	57,471,719
In-State Private Prisons	0	0	other providers; a private prison increase was	65,664,113	63,305,406
Out-of-State Private Prisons	<u>0</u>	<u>0</u>	eliminated mid-FY 08-09).	<u>0</u>	<u>0</u>
Subtotal - Corrections	0	0		138,111,784	133,509,058
Human Services					
Social Service Programs:					
County Administration	0	0	No change requested. Rates have been held flat	50,116,105	19,823,380
Child Welfare	0	0	since FY 2010-11 reductions. Most rates were	379,611,899	204,937,615
Child Care	0	0	reduced by 2.0 percent in FY 2010-11, bringing	73,976,592	14,104,221
Mental Health and Alcohol and Drug Abuse Svcs.	0	0	them to 0.5 percent below the FY 2007-08 level.	85,170,283	55,554,541
Developmental Disabilities	0	0	For developmental disability (DD) Medicaid	350,900,652	163,859,004
Vocational Rehab., Independent Living, Commis. on Deaf	0	0	waiver programs, the FY 2010-11 reduction	1,844,160	1,457,604
Youth Corrections	0	0	compounded with an FY 2009-10 reduction for a	<u>32,654,490</u>	<u>30,907,161</u>
Subtotal - Human Services	0	0	4.5 percent total reduction. For child welfare	974,274,181	490,643,526
			services, the rate reduction was 1.5 percent for the		
			largest line item and 2.0 percent for other line		
			items for FY 2010-11. There were no FY 2011-		
			12 rate changes.		
Health Care Policy and Financing					
Acute Care Providers	0	0	No generalized changes requested. The	1,937,447,929	910,057,046
Expansion Populations	0	0	Department proposes a statutory change to keep	136,678,713	0
Community LTC Providers (HCBS Waivers)	0	0	nursing facility rates from increasing. JBC	358,838,987	178,503,702
Long Term Care (PACE)	0	0	members have discussed portions of the	104,342,293	48,835,567
Service Management	0	0	Department's request that could be viewed as	61,074,987	28,497,676
Mental Health Services (fee-for-service)	0	0	effectively reducing rates for some providers.	<u>4,422,707</u>	<u>2,211,353</u>
Subtotal - Health Care Policy	0	0		2,602,805,616	1,168,105,344
Public Safety					
Community Corrections Programs	0	0	No change requested. No reduction has been	56,032,859	53,788,840
			proposed or applied since FY 2008-09. (Provider		
			per-diem is \$37.74 compared to \$37.72 in FY		
			2001-02.)		
Total :	\$0	\$0		\$3,771,224,440	\$1,846,046,768

FY 2012-13 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							
Jail Backlog	\$39,493	\$78,986	\$118,479	\$157,972	197,464	\$236,957	\$276,450
Pre-release Prison	63,660	127,319	190,979	254,639	318,298	381,958	445,618
Community Corrections Programs	287,359	574,717	862,076	1,149,434	1,436,793	1,724,152	2,011,510
In-State Private Prisons	316,527	633,054	949,581	1,266,108	1,582,635	1,899,162	2,215,689
Out-of-State Private Prisons	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - Corrections	707,038	1,414,076	2,121,115	2,828,153	3,535,191	4,242,229	4,949,267
Human Services							
Social Service Programs:							
County Administration	99,117	198,234	297,351	396,468	495,585	594,701	693,818
Child Welfare	1,024,688	2,049,376	3,074,064	4,098,752	5,123,440	6,148,128	7,172,817
Child Care	70,521	141,042	211,563	282,084	352,606	423,127	493,648
Mental Health and Alcohol and Drug Abuse Svcs.	277,773	555,545	833,318	1,111,091	1,388,864	1,666,636	1,944,409
Developmental Disabilities	819,295	1,638,590	2,457,885	3,277,180	4,096,475	4,915,770	5,735,065
Vocational Rehab., Independent Living, Commis. on Deaf	7,288	14,576	21,864	29,152	36,440	43,728	51,016
Youth Corrections	<u>154,536</u>	<u>309,072</u>	<u>463,607</u>	<u>618,143</u>	<u>772,679</u>	<u>927,215</u>	<u>1,081,751</u>
Subtotal - Human Services	2,453,218	4,906,435	7,359,653	9,812,871	12,266,088	14,719,306	17,172,523
Health Care Policy and Financing							
Acute Care Providers	4,550,285	9,100,570	13,650,856	18,201,141	22,751,426	27,301,711	31,851,997
Expansion Populations	0	0	0	0	0	0	0
Community LTC Providers (HCBS Waivers)	892,519	1,785,037	2,677,556	3,570,074	4,462,593	5,355,111	6,247,630
Long Term Care (PACE)	244,178	488,356	732,534	976,711	1,220,889	1,465,067	1,709,245
Service Management	142,488	284,977	427,465	569,954	712,442	854,930	997,419
Mental Health Services (fee-for-service)	<u>11,057</u>	<u>22,114</u>	<u>33,170</u>	<u>44,227</u>	<u>55,284</u>	<u>66,341</u>	<u>77,397</u>
Subtotal - Health Care Policy	5,840,527	11,681,053	17,521,580	23,362,107	29,202,634	35,043,160	40,883,687
Public Safety							
Community Corrections Programs	268,944	537,888	806,833	1,075,777	1,344,721	1,613,665	1,882,609
Total :	\$9,269,727	\$18,539,453	\$27,809,180	\$37,078,907	\$46,348,634	\$55,618,360	\$64,888,087

FY 2012-13 Community Provider Rate Setting

Rate/Program Area	GF Impact of Each 0.5% Increase or Decrease in Base -	
	4.5%	5.0%
Corrections		
Jail Backlog	\$355,436	\$394,929
Pre-release Prison	572,937	636,597
Community Corrections Programs	2,586,227	2,873,586
In-State Private Prisons	2,848,743	3,165,270
Out-of-State Private Prisons	<u>0</u>	<u>0</u>
Subtotal - Corrections	6,363,344	7,070,382
Human Services		
Social Service Programs:		
County Administration	892,052	991,169
Child Welfare	9,222,193	10,246,881
Child Care	634,690	705,211
Mental Health and Alcohol and Drug Abuse Svcs.	2,499,954	2,777,727
Developmental Disabilities	7,373,655	8,192,950
Vocational Rehab., Independent Living, Commis. on Deaf	65,592	72,880
Youth Corrections	<u>1,390,822</u>	<u>1,545,358</u>
Subtotal - Human Services	22,078,959	24,532,176
Health Care Policy and Financing		
Acute Care Providers	40,952,567	45,502,852
Expansion Populations	0	0
Community LTC Providers (HCBS Waivers)	8,032,667	8,925,185
Long Term Care (PACE)	2,197,601	2,441,778
Service Management	1,282,395	1,424,884
Mental Health Services (fee-for-service)	<u>99,511</u>	<u>110,568</u>
Subtotal - Health Care Policy	52,564,740	58,405,267
Public Safety		
Community Corrections Programs	2,420,498	2,689,442
Total :	\$83,427,540	\$92,697,267