

JOINT BUDGET COMMITTEE



STAFF FIGURE SETTING FY 2019-20

COMMON POLICY FOR COMMUNITY PROVIDER RATES

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

PREPARED BY:
ERIC J. KURTZ, JBC STAFF
JANUARY 22, 2019

JOINT BUDGET COMMITTEE STAFF
200 E. 14TH AVENUE, 3RD FLOOR • DENVER • COLORADO • 80203
TELEPHONE: (303) 866-2061 • TDD: (303) 866-3472
<https://leg.colorado.gov/agencies/joint-budget-committee>

OVERVIEW

The Joint Budget Committee (JBC) typically sets a common policy for community provider rates to ensure consistent and equitable treatment. The community provider rate common policy applies to an historic set of services that might otherwise be delivered by state FTE in the following departments: Corrections, Health Care Policy and Financing, Human Services, Judicial, Labor and Employment, Public Health and Environment, and Public Safety. Of the estimated base eligible for a common policy adjustment, 81 percent of the total funds and 69 percent of the General Fund is for providers paid by the Department of Health Care Policy and Financing. From time to time the JBC adds or subtracts from the set of entities that qualify for the community provider rate common policy on a case by case basis.

The common policy sets a baseline assumption, but the JBC staff still analyzes the suitability of each rate. The JBC staff may recommend modifications from the common policy if there are issues with a particular rate that make it significantly different from other rates and worthy of special consideration.

GOVERNOR'S REQUEST AND JBC STAFF RECOMMENDATION

EXECUTIVE REQUEST

For FY 2019-20, the Governor proposes a one percent across-the-board increase for community provider rates, except that for providers paid by the Department of Health Care Policy and Financing the Governor proposes an across-the-board increase of 0.750048233749366 percent. OSPB explains that the Department of Health Care Policy and Financing was given a 1.0 percent total dollar target for provider rate increases, but allowed to use some of the money for targeted rate adjustments. However, not all of the targeted rate adjustments proposed by the Department of Health Care Policy and Financing came from the 1.0 percent total dollar target. For example, the targeted increase for personal care and homemaker rates was requested outside of the 1.0 percent. This, combined with the cumulative impact of various small last minute tweaks and corrections to the budget, explains the strange percentage increase proposed for providers paid by the Department of Health Care Policy and Financing.

In addition to the request for an across-the-board adjustment, some departments requested targeted rate adjustments, including the Department of Health Care Policy and Financing and the Department of Human Services. In some cases the requested targeted rate adjustments replace the across-the-board increase and in some cases they are in addition to the across-the-board increase. The table below summarizes the requested targeted rate increases for context. However, the proposed targeted rate adjustments will be addressed during figure setting for the Department of Health Care Policy and Financing and the Department of Human Services. The JBC staff does not view the targeted rate adjustments as part of the common policy. The targeted rate adjustments are to address access issues or imbalances not addressed by the common policy. They are the exceptions to the common policy.

Targeted Rate Increases				
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	FEDERAL FUNDS
Health Care Policy and Financing				
Personal Care/Homemaker	\$20,534,428	\$10,267,214	\$0	\$10,267,214
Home- & Community-Based Services	10,167,918	5,083,959	0	5,083,959
Transportation	6,828,678	1,825,047	526,754	4,476,877
Dental	4,451,570	803,064	739,851	2,908,655
Maternity	4,373,298	1,966,672	0	2,406,626
Other	211,190	62,517	10,164	138,509
Primary Care/Radiology/PT&OT	0	0	0	0
Laboratory/Pathology	(9,262,666)	(2,301,773)	(470,544)	(6,490,349)
Anesthesia	(8,519,153)	(2,514,854)	(412,327)	(5,591,972)
Diabetes Test Strips	(2,301,070)	(873,026)	(70,414)	(1,357,630)
Subtotal - HCPF	\$26,484,193	\$14,318,820	\$323,484	\$11,841,889
Human Services				
Mental Health Institutes Contract Physicians	1,127,667	1,127,667	0	0
Child Welfare (SB 18-254)	10,350,000	4,968,000	2,070,000	3,312,000
Subtotal - Human Services	\$11,477,667	\$6,095,667	\$2,070,000	\$3,312,000
TOTAL	\$37,961,860	\$20,414,487	\$2,393,484	\$15,153,889

STAFF RECOMMENDATION

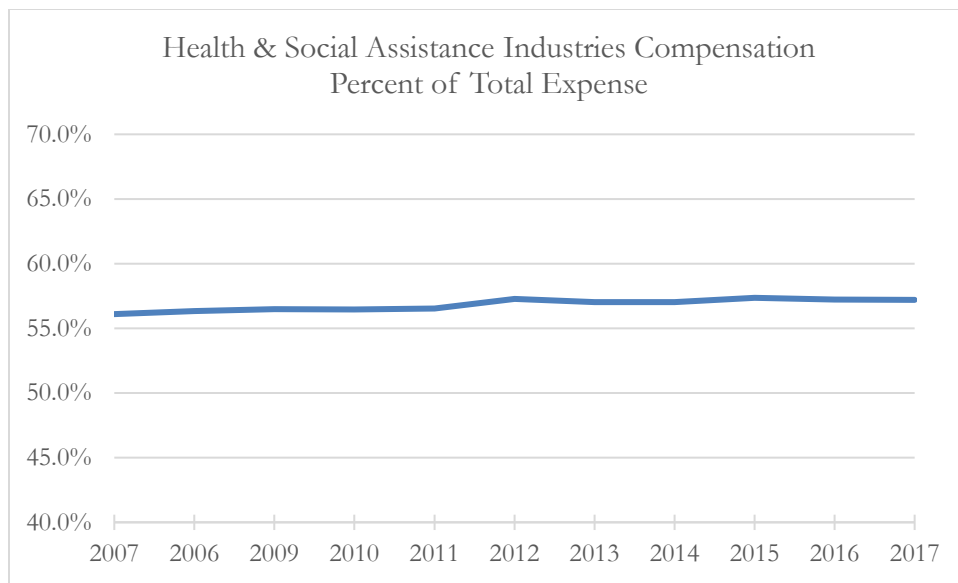
Staff recommends a 1.7 percent across-the-board increase for community provider rates for all departments, including the Department of Health Care Policy and Financing. The staff recommendation is higher than the Governor's request by \$51.1 million total funds, including \$20.9 million General Fund.

Several economic indicators suggest that community provider costs are increasing. The Denver/Aurora/Lakewood consumer price index (CPI) for calendar year 2018 was up 2.7 percent. For eligible community providers the majority of expenditures are for salaries and benefits and the national Employment Cost Index (ECI) that measures the cost of civilian compensation increased 2.8 percent. The Governor requested an increase of 3.0 percent for state employee salaries. Most of the providers eligible for the common policy offer health care and the CPI for health care increased 2.0 percent nationally and 6.4 percent for Denver/Aurora/Lakewood.

The JBC staff recommendation is based on trying to provide funding for increases in compensation costs. The Employment Cost Index indicates compensation costs increased 2.8 percent nationally from 2017 to 2018 (the Bureau of Labor Statistics does not publish a Colorado-specific figure). However, the base payment for community providers includes funds for things other than salaries, such as rent, utilities, office supplies, equipment, insurance, and other operating expenses. The JBC staff assumes 60 percent of community provider costs are for compensation. Applying a 2.8 percent increase on 60.0 percent of the base results in a 1.7 percent increase on the base.

The selected discount rate of 60.0 percent is based on data previously collected by the JBC that is specific to Colorado's community providers, but is very old, combined with more recent data from the US Census Bureau that is national and does not align exactly with the types of providers affected by the community provider rate common policy. Back in FY 1997-98, or 21 years ago, the JBC used to collect data from community providers through a survey (there were a lot fewer community

providers) and the average ratio of compensation costs to total expenses at that time was 60 percent. To try to get more recent data, the JBC staff looked at estimated selected expenses for employer firms published by the US Census Bureau. For health and social assistance industries the ratio of compensation expenses to total expenses was remarkably consistent over time, ranging from a high of 57.4 percent in 2015 to a low of 56.1 percent in 2007. The stability in the metric over time and the fact that the national data aligns so closely with the Colorado-specific survey data from FY 1997-98 suggests that assuming 60 percent of costs for compensation may still be a reasonable rule of thumb. There is likely significant variation between different providers, though. For example, the national data shows hospitals (which weigh heavily in the overall metric due to their size) spend 52.3 percent on compensation while at the other end of the spectrum the home health care services industry spends 74.3 percent on compensation. The 60 percent discount rate proposed by the JBC staff is a very rough estimate, with the imperfect available data, of an appropriate adjustment to account for the portion of community provider costs related to compensation versus operating expenses.



The JBC staff considered recommending 60 percent of the increase for state employee salaries with the goal of achieving parity of effort in addressing state employee compensation costs and community provider compensation costs. However, the Governor's proposed increase of 3.0 percent for state employee salaries includes corrections for salaries that have become out of line with comparable non-government rates. The JBC staff views these corrections as analogous to the targeted rate increases that the JBC staff recommends addressing separately from the across-the-board increase. Instead, the JBC staff focused on the Employment Cost Index that measures the year over year change in compensation as a defensible benchmark for how much community provider rates should increase. Selecting the Employment Cost Index as a benchmark, rather than state employee salaries, reduced the overall cost of the staff recommendation.

The table on the next page shows an estimated base eligible for the community provider rate common policy and the fiscal impact of several different potential rate adjustments. The estimated base was calculated from the Governor's November 1 request. The estimated base has not been updated for subsequent forecast revisions. The largest forecast revision that will likely affect the cost of a community provider rate common policy is for the Department of Health Care Policy and Financing and will not be available until the middle of February. If the JBC approves a common policy

adjustment to community provider rates, each JBC analyst will examine the base and independently calculate the application of the JBC's common policy, which may result in some variation from these figures. The actual cost of the JBC's common policy may also vary based on compounding with other JBC actions.

The JBC staff estimates that each 0.5 percent change in community provider rates changes expenditures by approximately \$28.5 million total funds, including \$12.0 million General Fund. The cost of the staff recommendation is highlighted with a dotted box. In addition to the staff recommendation, the table presents a few different possible funding scenarios based on the economic indicators described above.

The JBC could adopt a common policy to reduce community provider rates, rather than increase them, to help balance the budget, and the JBC has taken that approach at times in the past. Based on federal regulation, for any reduction in Medicaid provider rates the Department of Health Care Policy and Financing would need to provide the federal Centers for Medicare and Medicaid Services (CMS) with an analysis of the effect, if any, on client access to care. This creates a risk that the General Assembly might balance the budget counting on provider rate reductions in Medicaid that could be delayed in receiving federal approval, or even denied.

Community Provider Rate Common Policy Scenarios										
Program	Estimated Base Eligible for Common Policy		Governor Request 0.75% HCPF			Staff Recom.	CPI Health National	CPI Denver/ Aurora/ Lakewood	Employment Cost Index National	State Salary Request
	Total Funds	General Fund	-0.5%	1.0%	1.0%					
Health Care Policy and Financing										
Medical Service Premiums	\$3,930,322,975	\$1,336,877,258	(\$19,651,615)	\$29,518,621	\$39,303,230	\$66,815,491	\$78,606,460	\$106,118,720	\$110,049,043	\$117,909,689
Office of Community Living	595,234,853	306,222,520	(2,976,174)	4,469,200	5,952,349	10,118,993	11,904,697	16,071,341	16,666,576	17,857,046
County Administration	70,016,841	12,614,448	(350,084)	525,860	700,168	1,190,286	1,400,337	1,890,455	1,960,472	2,100,505
Behavioral Health	8,913,729	1,864,869	(44,569)	66,946	89,137	151,533	178,275	240,671	249,584	267,412
Human Services/Pub Health	<u>3,567,200</u>	<u>1,783,500</u>	<u>(17,836)</u>	<u>35,672</u>	<u>35,672</u>	<u>60,642</u>	<u>71,344</u>	<u>96,314</u>	<u>99,882</u>	<u>107,016</u>
Subtotal - HCPF	\$4,608,055,598	\$1,659,362,595	(\$23,040,278)	\$34,616,299	\$46,080,556	\$78,336,945	\$92,161,113	\$124,417,501	\$129,025,557	\$138,241,668
Human Services										
Child Welfare and Youth Corrections	497,019,300	306,513,700	(2,485,097)	4,970,193	4,970,193	8,449,328	9,940,386	13,419,521	13,916,540	14,910,579
Child Care	163,957,600	75,559,700	(819,788)	1,639,576	1,639,576	2,787,279	3,279,152	4,426,855	4,590,813	4,918,728
Behavioral Health	131,604,700	119,057,200	(658,024)	1,316,047	1,316,047	2,237,280	2,632,094	3,553,327	3,684,932	3,948,141
County Administration	75,891,000	25,262,800	(379,455)	758,910	758,910	1,290,147	1,517,820	2,049,057	2,124,948	2,276,730
Other	<u>20,892,700</u>	<u>12,597,600</u>	<u>(104,464)</u>	<u>208,927</u>	<u>208,927</u>	<u>355,176</u>	<u>417,854</u>	<u>564,103</u>	<u>584,996</u>	<u>626,781</u>
Subtotal - Human Services	\$889,365,300	\$538,991,000	(\$4,446,828)	\$8,893,653	\$8,893,653	\$15,119,210	\$17,787,306	\$24,012,863	\$24,902,229	\$26,680,959
Corrections										
In-state private prisons	59,986,000	59,986,000	(299,930)	599,860	599,860	1,019,762	1,199,720	1,619,622	1,679,608	1,799,580
Community Corrections Programs	31,724,800	31,724,800	(158,624)	317,248	317,248	539,322	634,496	856,570	888,294	951,744
Payments to local jails	13,450,000	13,450,000	(67,250)	134,500	134,500	228,650	269,000	363,150	376,600	403,500
Pre-release parole revocation facilities	<u>10,795,300</u>	<u>10,795,300</u>	<u>(53,977)</u>	<u>107,953</u>	<u>107,953</u>	<u>183,520</u>	<u>215,906</u>	<u>291,473</u>	<u>302,268</u>	<u>323,859</u>
Subtotal - Corrections	\$115,956,100	\$115,956,100	(\$579,781)	\$1,159,561	\$1,159,561	\$1,971,254	\$2,319,122	\$3,130,815	\$3,246,770	\$3,478,683
Public Safety										
Community Corrections Programs	\$70,700,600	\$68,058,800	(\$353,503)	\$707,006	\$707,006	\$1,201,910	\$1,414,012	\$1,908,916	\$1,979,617	\$2,121,018
Judicial										
Offender Treatment and Services	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Public Health and Environment										
Local Public Health Agencies	\$9,371,400	\$6,832,900	(\$46,857)	\$93,714	\$93,714	\$159,314	\$187,428	\$253,028	\$262,399	\$281,142
Labor and Employment										
Independent Living Services	\$6,733,500	\$6,733,500	(\$33,668)	\$67,335	\$67,335	\$114,470	\$134,670	\$181,805	\$188,538	\$202,005
TOTAL Funds	\$5,700,182,498	\$2,395,934,895	(\$28,500,915)	\$45,537,568	\$57,001,825	\$96,903,103	\$114,003,651	\$153,904,928	\$159,605,110	\$171,005,475
General Fund			(\$11,979,674)	\$19,832,777	\$23,959,349	\$40,730,893	\$47,918,698	\$64,690,242	\$67,086,177	\$71,878,047
<i>Difference from Request -Total Funds</i>			<i>(\$74,038,483)</i>	<i>\$0</i>	<i>\$11,464,257</i>	<i>\$51,365,535</i>	<i>\$68,466,083</i>	<i>\$108,367,360</i>	<i>\$114,067,542</i>	<i>\$125,467,907</i>
<i>General Fund</i>			<i>(\$31,812,451)</i>	<i>\$0</i>	<i>\$4,126,572</i>	<i>\$20,898,116</i>	<i>\$28,085,921</i>	<i>\$44,857,465</i>	<i>\$47,253,400</i>	<i>\$52,045,270</i>