

JOINT BUDGET COMMITTEE



STAFF FIGURE SETTING FY 2020-21

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
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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. 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

ACROSS-THE-BOARD

For FY 2020-21, the Governor proposes a 0.5 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 0.291 percent. OSPB explains that the Department of Health Care Policy and Financing was given a 0.5 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 0.5 percent total dollar target. For example, both the targeted increase for personal care and homemaker rates and the targeted decrease for nursing homes were requested outside of the 0.5 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.

Of the estimated base eligible for a common policy adjustment, 81 percent of the total funds and 71 percent of the General Fund is for providers paid by the Department of Health Care Policy and Financing. As a result, the most common increase is 0.291 percent, rather than 0.5 percent. The average dollar increase on the estimated eligible base statewide is 0.33 percent.

TARGETED RATE ADJUSTMENTS

In addition to the request for an across-the-board adjustment, some departments requested targeted rate adjustments either to replace the across-the-board increase or in addition to the across-the-board increase. The targeted rate adjustments are not part of the common policy, but are summarized here for context. The Department of Human Services requested \$2.5 million total funds, including \$1.2 million General Fund, for child welfare rates to satisfy the requirements of S.B. 18-254, sponsored by the JBC. Pursuant to S.B. 18-254, the Department of Human Services needs an additional estimated

\$22.3 million total funds, including \$10.7 million General Fund, by FY 2021-22, but the increase per year is discretionary. The Judicial Department requested \$4.5 million General Fund combined for contract services for the Alternate Defense Counsel, Office of Child's Representative, and Respondent Parents Counsel. The table below summarizes the requested targeted rate adjustments for the Department of Health Care Policy and Financing.

Health Care Policy and Financing Targeted Rate Increases					
RATE	PROPOSED CHANGE	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	FEDERAL FUNDS
Personal Care and Homemaker	2.75% inflation	\$4,534,519	\$2,267,259	\$0	\$2,267,260
Alternative care facility	6%	3,693,258	1,846,629	0	1,846,629
Adult day programs	19%	3,444,422	1,722,211	0	1,722,211
Behavioral health fee-for-service (mostly impacts RCCFs)	Rebalance to within 80-100% benchmark	1,586,971	875,964	(20,264)	731,271
Habilitation in Residential Child Care Facilities	Differentiate rates based on support need	532,362	266,181	0	266,181
Family planning	Pay evaluation and management consistent with other family planning	97,092	9,709	0	87,383
Ambulatory surgical centers	Add services otherwise paid at hospital	0	0	0	0
Nursing home	Bill to remove statutory 3% increase and for FY 20-21 instead provide 0.29%	(18,967,828)	(9,483,914)	0	(9,483,914)
Anesthesia	Reduce to Medicare	(5,977,532)	(1,789,672)	(320,397)	(3,867,463)
In-home dialysis	Align reimbursable units with Medicare	(929,537)	(292,415)	(34,471)	(602,651)
Durable medical equipment	Rebalance to within 80-100% Medicare	(49,244)	(17,432)	(3,733)	(28,079)
Subtotal - Targeted Adjustments		(\$12,035,517)	(\$4,595,480)	(\$378,865)	(\$7,061,172)

Not included in the table above are any adjustments due to the Denver minimum wage. Pursuant to H.B. 19-1210 (Melton & Galindo/Danielson & Moreno), if a local government implements a minimum wage that exceeds the state minimum wage, then the General Assembly "shall" appropriate sufficient funds to pay nursing homes in the jurisdiction and adjacent jurisdictions (if a nursing home in an adjacent jurisdiction voluntarily increases wages accordingly) the difference in their costs for Medicaid clients. In addition, as soon as practicable after receiving notification of an enacted local minimum wage, the Department of Health Care Policy and Financing must submit a report to the Joint Budget Committee with recommendations on whether other provider rates need to be increased. The Department of Health Care Policy and Financing expects to submit the recommendations required by H.B. 19-1210 on provider rate adjustments prior to figure setting for the Department.

For the nursing home component, preliminary estimates from the Department suggest an increase of \$700,000 to \$1.2 million total funds will be needed, including \$350,000 to \$600,000 General Fund. The range is based on whether the enhanced payment is interpreted as needing to cover the incremental increase in costs from the statewide minimum wage or the cumulative increase in costs from the prior year.

In addition to nursing home rates, in testimony to the JBC the Department mentioned personal care, homemaker, health maintenance assistance, and residential rehabilitation as rates that might need adjusting for the Denver minimum wage. The Department estimated it could cost \$10.0 to \$15.0 million General Fund to increase these rates in the metro area (Denver and surrounding communities that are likely competitive for workers) to account for the increase in the local minimum wage. This is based on increasing the component of the rate for compensation by the increase in the minimum

wage. This is approximately a 5% increase in the rates. Department staff emphasized that this is one scenario the Department modeled and the Department is still analyzing which rates might need to be adjusted, the best methodology for calculating the adjustment, and what would be required to get approval from the federal Centers for Medicare and Medicaid Services (CMS) for a regional rate adjustment.

STAFF RECOMMENDATION

SUMMARY AND RATIONALE

Staff recommends a 1.9 percent across-the-board increase for community provider rates for all departments, including the Department of Health Care Policy and Financing, based on the increase in the Consumer Price Index (CPI). The staff recommendation is \$94.3 million total funds, including \$38.4 million General Fund, higher than the Governor's request.

The proposed targeted rate adjustments will be addressed during figure setting for the relevant departments. 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.

Several economic indicators suggest that community provider costs are increasing. The Denver/Aurora/Lakewood consumer price index (CPI) for calendar year 2019 was up 1.9 percent. For eligible community providers the majority of expenditures are for salaries and benefits¹ and the national Employment Cost Index (ECI) that measures the cost of civilian compensation increased 2.8 percent. The Governor requested an increase of 2.0 percent for state employee salaries. Most of the providers eligible for the common policy offer health care and the CPI for health care increased 3.6 percent for Denver/Aurora/Lakewood. Any of these indicators might be a good assumption about how much provider rates should increase. The JBC staff recommendation used the CPI because it is the most widely understood and likely to be perceived as fair. Also, it is the index used for adjusting the statewide minimum wage.

POTENTIAL ALTERNATIVES

Recognizing that the staff recommendation might be difficult to fit into the budget from the baseline expectations the Governor set, the JBC staff suggests that the JBC consider a minimum provider rate increase of 1.0 percent. An increase of less than 1.0 percent approaches such a nominal benefit for individual providers that the JBC might be better off skipping the increase altogether and targeting other priorities, with the understanding that a larger provider rate adjustment might be needed in the future. Some of those other priorities might include addressing provider rates impacted by the Denver minimum wage, or priorities unrelated to provider rates. A 1.0 percent provider rate increase would require \$51.1 million total funds, including \$16.1 million General Fund, more than the Governor

¹ For example, the Department of Health Care Policy and Financing testified during the hearing, "Based on the Department's rate methodology for services, the average range of provider payments built into the rates related to compensation for providing direct and indirect client care ranges from 70.48 percent of the unit rate to 95.88 percent of the unit rate depending on the service. On average, 84.96 percent of the unit rate paid to providers accounts for wages for direct service providers, management staff, ancillary and administrative staff, and payroll taxes and benefits."

requested. Alternatively, skipping the increase proposed by the Governor would save \$19.9 million total funds, including \$8.7 million General Fund, from the Governor's request.

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 \$30.0 million total funds, including \$12.4 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.

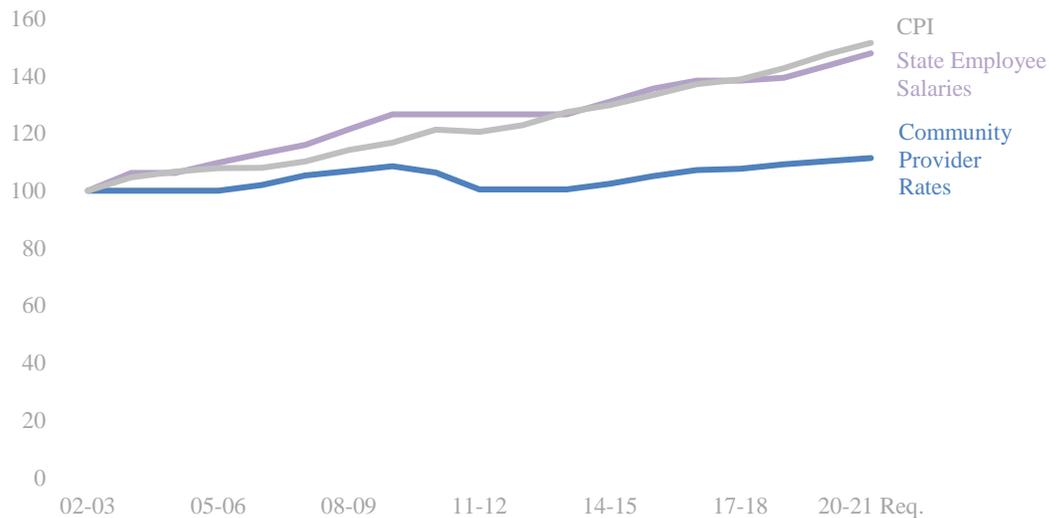
The JBC could adopt a common policy to reduce community provider rates, rather than increase them, to help balance the budget, and the JBC has taken that approach at times in the past. A reduction of 0.5 percent would save \$12.4 million General Fund from the base, plus another \$8.7 million General Fund from the Governor's request, for a total savings of \$21.1 million from the Governor's request. 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 0.291% HCPF			Staff Recom. (CPI)	State Employee Salary Request	Employment Cost Index National	CPI Health Denver/Aurora/Lakewood
	Total Funds	General Fund	0.5%	0.5%	1.0%				
Health Care Policy and Financing									
Medical Service Premiums	\$4,125,364,140	\$1,429,423,327	\$12,004,810	\$20,626,821	\$41,253,641	\$78,381,919	\$82,507,283	\$115,510,196	\$148,513,109
Office of Community Living	630,545,764	323,905,776	1,834,889	3,152,729	6,305,458	11,980,370	12,610,915	17,655,281	22,699,647
County Administration	88,984,286	12,590,592	258,944	444,921	889,843	1,690,701	1,779,686	2,491,560	3,203,434
Behavioral Health	9,441,206	2,136,122	27,474	47,206	94,412	179,383	188,824	264,354	339,883
Human Services/Pub Health	<u>735,400</u>	<u>367,600</u>	<u>3,677</u>	<u>3,677</u>	<u>7,354</u>	<u>13,973</u>	<u>14,708</u>	<u>20,591</u>	<u>26,474</u>
Subtotal - HCPF	\$4,855,070,796	\$1,768,423,416	\$14,129,794	\$24,275,354	\$48,550,708	\$92,246,346	\$97,101,416	\$135,941,982	\$174,782,547
Human Services									
Child Welfare and Youth Corrections	501,990,000	309,579,000	2,509,950	2,509,950	5,019,900	9,537,810	10,039,800	14,055,720	18,071,640
Child Care	165,597,000	76,315,400	827,985	827,985	1,655,970	3,146,343	3,311,940	4,636,716	5,961,492
Behavioral Health	164,193,000	120,248,000	820,965	820,965	1,641,930	3,119,667	3,283,860	4,597,404	5,910,948
County Administration	76,650,000	25,515,400	383,250	383,250	766,500	1,456,350	1,533,000	2,146,200	2,759,400
Other	<u>21,100,200</u>	<u>12,663,800</u>	<u>105,501</u>	<u>105,501</u>	<u>211,002</u>	<u>400,904</u>	<u>422,004</u>	<u>590,806</u>	<u>759,607</u>
Subtotal - Human Services	\$929,530,200	\$544,321,600	\$4,647,651	\$4,647,651	\$9,295,302	\$17,661,074	\$18,590,604	\$26,026,846	\$33,463,087
Corrections									
In-state private prisons	64,732,600	64,732,600	323,663	323,663	647,326	1,229,919	1,294,652	1,812,513	2,330,374
Community Corrections Programs	40,012,800	37,770,600	200,064	200,064	400,128	760,243	800,256	1,120,358	1,440,461
Payments to local jails	14,339,000	14,339,000	71,695	71,695	143,390	272,441	286,780	401,492	516,204
Pre-release parole revocation facilities	<u>14,748,200</u>	<u>14,748,200</u>	<u>73,741</u>	<u>73,741</u>	<u>147,482</u>	<u>280,216</u>	<u>294,964</u>	<u>412,950</u>	<u>530,935</u>
Subtotal - Corrections	\$133,832,600	\$131,590,400	\$669,163	\$669,163	\$1,338,326	\$2,542,819	\$2,676,652	\$3,747,313	\$4,817,974
Public Safety									
Community Corrections Programs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Judicial									
Probation and Related Services	\$73,387,400	\$16,601,000	\$366,937	\$366,937	\$733,874	\$1,394,361	\$1,467,748	\$2,054,847	\$2,641,946
Public Health and Environment									
Local Public Health Agencies	\$9,465,000	\$6,901,200	\$47,325	\$47,325	\$94,650	\$179,835	\$189,300	\$265,020	\$340,740
Labor and Employment									
Independent Living Services	\$7,139,600	\$6,800,800	\$35,698	\$35,698	\$71,396	\$135,652	\$142,792	\$199,909	\$257,026
TOTAL Funds	\$6,008,425,596	\$2,474,638,416	\$19,896,568	\$30,042,128	\$60,084,256	\$114,160,087	\$120,168,512	\$168,235,917	\$216,303,320
General Fund			\$8,667,146	\$12,373,192	\$24,746,384	\$47,018,130	\$49,492,768	\$69,289,876	\$89,086,983
<i>Difference from Request -Total Funds</i>			\$0	\$10,145,560	\$40,187,688	\$94,263,519	\$100,271,944	\$148,339,349	\$196,406,752
<i>General Fund</i>			\$0	\$3,706,046	\$16,079,238	\$38,350,984	\$40,825,622	\$60,622,730	\$80,419,837

Appendix: History of Community Provider Rates

Community Provider Rates			
FISCAL YEAR	COMMUNITY PROVIDER RATE	STATE EMPLOYEE SALARIES	CPI
98-99	3.0%	6.2%	3.3%
99-00	2.0%	5.6%	2.4%
00-01	2.0%	6.0%	2.9%
01-02	2.5%	7.4%	4.0%
02-03	0.0%	6.2%	4.7%
03-04	0.0%	0.0%	1.9%
04-05	0.0%	3.3%	1.1%
05-06	2.0%	3.0%	0.1%
06-07	3.3%	2.6%	2.1%
07-08	1.5%	4.8%	3.6%
08-09	1.5%	4.3%	2.2%
09-10	-2.0%	0.0%	3.9%
10-11	-5.5%	0.0%	0.6%
11-12	0.0%	0.0%	1.9%
12-13	0.0%	0.0%	3.7%
13-14	2.0%	3.5%	1.9%
14-15	2.5%	3.5%	2.8%
15-16	2.0%	2.0%	2.8%
16-17	0.5%	0.0%	1.2%
17-18	1.4%	0.8%	2.8%
18-19	1.0%	3.0%	3.4%
19-20	1.0%	3.0%	2.7%
20-21 Req.	0.3%	2.0%	1.9%

Since FY 02-03 **Community Provider Rates** have grown more slowly than **State Employee Salaries** and the **Consumer Price Index (CPI)**
Index = 100



The State Employee Salaries category only captures across-the-board changes to salaries and does not include merit adjustments or other components of compensation, such as health, retirement, and disability benefits.

In years when the General Assembly approved different community provider rate adjustments for different populations of providers, the tables chart the most common adjustment. The tables do not reflect the impact of targeted rate adjustments.

In interpreting analysis of this type the starting year is important and the JBC should note that choosing a different starting year can sometimes significantly change the ending relationships. For example, starting at FY 09-10 instead of FY 02-03 would make the CPI look noticeably higher than State Employee Salaries in FY 20-21. The staff starting year was chosen to show community provider rates through two recessions starting from the trough (for community provider rates) of the first recession. The trough for appropriations often lags the trough for revenues.