

JOINT BUDGET COMMITTEE



STAFF FIGURE SETTING FY 2021-22

COMMON POLICY FOR COMMUNITY PROVIDER RATES

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

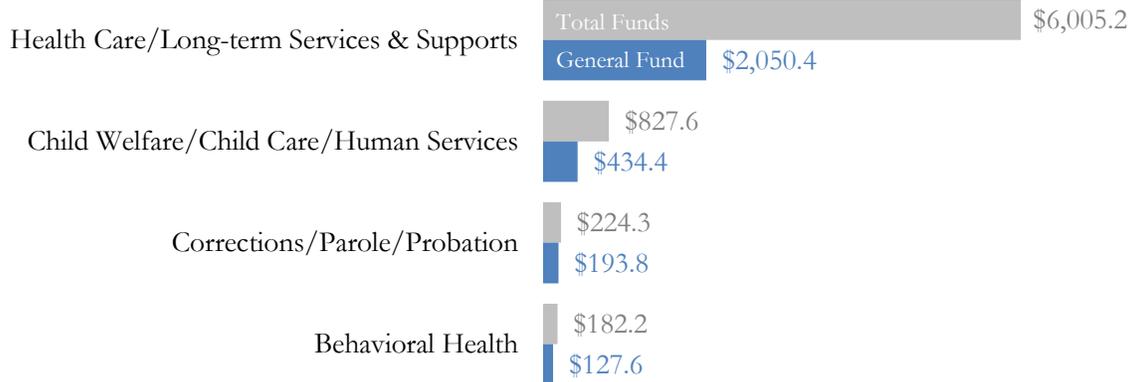
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OVERVIEW

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, Military and Veterans Affairs, 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. Primarily the community provider rate common policy applies to health care and long-term services and supports, which make up 83 percent of the total funds and 73 percent of the General Fund.

Community Provider Rates Base Eligible for Common Policy Adjustment In millions



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 2021-22, the Governor did not propose any across-the-board adjustment for community provider rates.

TARGETED RATE ADJUSTMENTS

The Department of Health Care Policy and Financing and the Department of Human Services submitted proposed targeted rate adjustments. The targeted rate adjustments are not part of the common policy, but are summarized here for context.

The Department of Health Care Policy and Financing submitted the targeted rate adjustments identified in the table below. These will be discussed during figure setting.

R16 Provider Rate Adjustments					
Rate	Change	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	FEDERAL FUNDS
Nursing facilities	No auto adjust	(\$13,741,537)	(\$6,870,769)	\$0	(\$6,870,768)
Lab testing	80% of Medicare	(12,587,595)	(2,923,654)	(699,548)	(8,964,393)
Hospital outpatient physician administered drugs	340B drug price discount	(6,546,978)	(1,805,502)	(323,572)	(4,417,904)
Anesthesia	100% of Medicare	(5,959,562)	(1,904,319)	(245,399)	(3,809,844)
Prosthetics, orthotics, ambulatory surgical centers	100% of Medicare	(1,360,741)	(546,717)	(35,307)	(778,717)
Allergy test antigen preparation	Commercial benchmark	(694,456)	(161,298)	(38,594)	(494,564)
Pulse oximeter rental	10% of purchase price	(458,993)	(184,413)	(11,910)	(262,670)
Cash Fund Transfer to Offset the General Fund		0	(1,354,330)	1,354,330	0
TOTAL		(\$41,349,862)	(\$15,751,002)	\$0	(\$25,598,860)

In addition, the Department of Health Care Policy and Financing submitted an annualization for the Denver local minimum wage that includes \$2.8 million total funds, including \$1.4 million General Fund, for further increases in FY 21-22 in Denver only for personal care, homemaker services, health maintenance activities, residential habilitation, and consumer directed services to keep pace with scheduled increases in the Denver minimum wage in FY 2021-22. This portion of the annualization is potentially discretionary.

The table above does not include temporary emergency increases in provider rates authorized by executive order. These temporary increases impact FY 2020-21 expenditures, rather than FY 2021-22, and cost estimates will be included in the Department of Health Care Policy and Financing's February forecast update.

The Department of Human Services submitted an annualization to restore the 1.0 percent common policy provider rate reduction in FY 20-21 at a cost of \$8.7 million total funds, including \$5.4 million General Fund. The annualization treats the FY 20-21 rate reduction as a one-time adjustment, rather than an on-going adjustment. No other department interpreted the General Assembly's action as one-time rather than on-going. By submitting the change as an annualization, the Department of Human Services did not provide any accompanying explanation or justification for the request.

STAFF RECOMMENDATION

Staff recommends a 2.0 percent across-the-board increase for community provider rates for all departments at an estimated cost of \$144.8 million total funds, including \$56.1 million General Fund. The recommendation is designed to restore the 1.0 percent provider rate reduction last year and provide a 1.0 percent increase on top of that amount. Therefore, the recommendation is in lieu of the annualization requested by the Department of Human Services, rather than compounding with that annualization. When accounting for the \$8.7 million total funds, including \$5.4 million General Fund,

that the Governor already included in the request for the Department of Human Services annualization, the staff recommendation is \$136.1 million total funds, including \$50.7 million General Fund, higher than the Governor's request.

The proposed targeted rate adjustments for the Department of Health Care Policy and Financing will be addressed during figure setting for that department. 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.

The staff recommendation is intended to strike a balance between acknowledging increasing costs for community providers and recognizing that while many community providers have experienced negative business impacts during the pandemic and economic downturn, these community providers are still working. The JBC staff considered recommending a 3.0 percent increase to restore the 1.0 percent cut last year and then provide an increase equal to the 2.0 percent CPI. However, the JBC staff assumes that this year the General Assembly may want to target some or all of the funds that might normally go to provider rate increases toward populations harder hit by the economic downturn, population health efforts, restoring state programs and reserves, economic stimulus strategies, etc.

Several economic indicators suggest that community provider costs are increasing. The Denver/Aurora/Lakewood consumer price index (CPI) for calendar year 2020 was up 2.0 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 2.4 percent for the 12 month period ending in September 2020. The Governor requested an increase of 2.05 percent for state employee salaries. Most of the providers eligible for the common policy offer health care and the CPI for health care increased 2.4 percent for Denver/Aurora/Lakewood. Any of these indicators might be a good assumption about how much provider rates should increase. The JBC staff analysis focused on 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.

The table on the next page shows an estimated base eligible for the community provider rate common policy and the fiscal impact of the staff recommendation. The estimated base was calculated by the JBC staff and may change through figure setting to reflect things like policy recommendations or forecast changes. The largest change is likely to be for the Department of Health Care Policy and Financing's forecast update, which will not be available until the middle of February. However, even if the February forecast changes the estimated General Fund base eligible for the common policy for the Department of Health Care Policy and Financing by \$100 million, the error in the estimated fiscal impact of the community provider rate common policy would only be \$1.0 million per 1.0 percent.

The estimated base assumes the federal public health emergency will be in effect through the end of December 2021. This is based on a January 22, 2021, letter to state governors from the federal acting Secretary of Health and Human Services stating:

To assure you of our commitment to the ongoing [COVID] response, we have determined that the [federal public health emergency] PHE will likely remain in place for the entirety of 2021, and when a decision is made to terminate the declaration or let it expire, [the federal Health and Human Services] HHS will provide states with 60 days' notice prior to termination.

The letter is not an official extension of the public health emergency and the current declaration expires April 21, 2021. If new information emerges about the duration of the federal public health emergency, the estimated base will need to be updated.

The duration of the federal public health emergency is important because it impacts the federal match rate for Medicaid, providing an additional 6.2 percent federal match. It also impacts the scheduled timing of benefit reductions and the forecasted enrollment of people locked in to Medicaid and CHP+ due to federal guidance prohibiting any decrease in benefits or eligibility and any disenrollments during the emergency. Any change in provider rates is going to cost less General Fund in FY 21-22 due to the availability of the enhanced federal match for half the fiscal year, but the state will need to make up the difference when the enhanced federal match goes away. For each one percent change in provider rates there will be an expected FY 21-22 annualization due to the change in the federal match rate of approximately \$1.4 million General Fund.

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 1.0 percent change in community provider rates changes expenditures by approximately \$72.4 million total funds, including \$28.1 million General Fund.

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		Change Provider Rates by 1.0%		Staff Recommended Increase of 2.0%	
	Total Funds	General Fund	Total Funds	General Fund	Total Funds	General Fund
Health Care Policy and Financing						
Medical Service Premiums	\$5,231,508,060	\$1,705,485,859	\$52,315,081	\$17,054,859	\$104,630,161	\$34,109,717
Office of Community Living	676,590,565	325,252,462	6,765,906	3,252,525	13,531,811	6,505,049
County Administration	88,092,552	12,461,679	880,926	124,617	1,761,851	249,234
Behavioral Health	13,247,343	2,526,426	132,473	25,264	264,947	50,529
Human Services/Pub Health	<u>22,606,970</u>	<u>11,247,516</u>	<u>226,070</u>	<u>112,475</u>	<u>452,139</u>	<u>224,950</u>
Subtotal - HCPF	\$6,032,045,490	\$2,056,973,942	\$60,320,456	\$20,569,740	\$120,640,909	\$41,139,479
Human Services						
Child Welfare and Youth Corrections	517,805,030	302,204,094	5,178,050	3,022,041	10,356,101	6,044,082
Child Care	183,063,074	75,874,222	1,830,631	758,742	3,661,261	1,517,484
Behavioral Health	168,991,629	125,080,354	1,689,916	1,250,804	3,379,833	2,501,607
County Administration	75,883,400	25,260,254	758,834	252,603	1,517,668	505,205
Other	<u>20,873,843</u>	<u>12,462,510</u>	<u>208,738</u>	<u>124,625</u>	<u>417,477</u>	<u>249,250</u>
Subtotal - Human Services	\$966,616,976	\$540,881,434	\$9,666,169	\$5,408,815	\$19,332,340	\$10,817,628
Corrections						
In-state private prisons	63,730,014	61,330,014	637,300	613,300	1,274,600	1,226,600
Medical and behavioral health services	21,189,033	21,189,033	211,890	211,890	423,781	423,781
Community Corrections Programs	14,441,283	12,245,683	144,413	122,457	288,826	244,914
Payments to local jails	<u>12,706,175</u>	<u>12,706,175</u>	<u>127,062</u>	<u>127,062</u>	<u>254,124</u>	<u>254,124</u>
Subtotal - Corrections	\$112,066,505	\$107,470,905	\$1,120,665	\$1,074,709	\$2,241,331	\$2,149,419
Public Safety						
Community Corrections Programs	\$78,333,892	\$73,036,710	\$783,339	\$730,367	\$1,566,678	\$1,460,734
Judicial						
Probation and Related Services	\$33,929,172	\$13,335,115	\$339,292	\$133,351	\$678,583	\$266,702
Public Health and Environment						
Local Public Health Agencies	\$9,006,380	\$7,196,275	\$90,064	\$71,963	\$180,128	\$143,926
Labor and Employment						
Independent Living Services	\$6,132,839	\$6,132,839	\$61,328	\$61,328	\$122,657	\$122,657
Military and Veterans' Affairs						
County Veterans Services	\$1,244,707	\$1,244,707	\$12,447	\$12,447	\$24,894	\$24,894
TOTAL Funds	\$7,239,375,961	\$2,806,271,927	\$72,393,760	\$28,062,720	\$144,787,520	\$56,125,439