

Joint Budget Committee



Staff Figure Setting FY 2025-26

Common Policy for Community Provider Rates

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

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Overview of community provider rates

A “community provider” is a non-state entity that provides services that might otherwise be provided by state agencies. The “rate” is what state agencies pay community providers for those services.

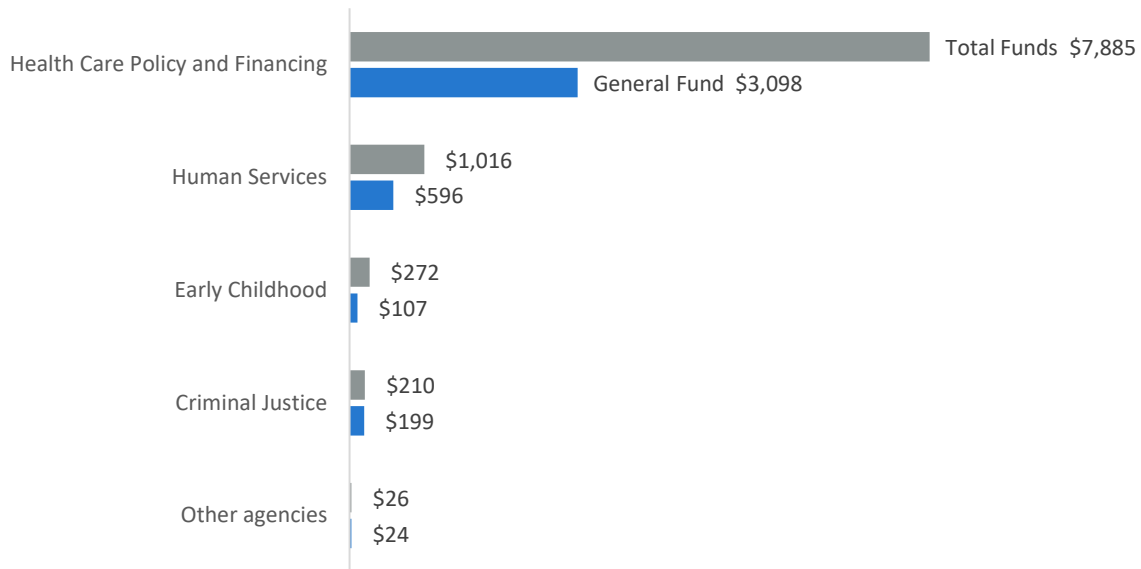
Community provider rates change in one of two ways. The first is a targeted rate adjustment. Targeted adjustments usually aim to achieve something specific, such as a desired quality or quantity of a service. Targeted rate adjustments stem from one or more processes:

- A budget request from a state agency
- Lobbying pressure on behalf of specific provider groups
- JBC member-initiated decisions
- JBC staff-initiated recommendations

Community provider rates also change through a common policy adjustment. The common policy applies a uniform adjustment as a percentage of the eligible base of appropriations. For example, a common policy increase of 2.0% for an eligible base of \$100.0 million would cost \$2.0 million. The common policy usually, but not always, excludes services subject to targeted rate adjustments in the same fiscal year.

Services paid for through the Department of Health Care Policy and Financing (HCPF) make up most of the common policy base: 83.8% of the total base and 77.0% of the General Fund base. The JBC occasionally adds or subtracts from the list of entities that qualify for the common policy on a case-by-case basis.

Health care makes up the overwhelming majority of appropriations in the provider rate common policy base (\$, millions)



Governor request (none)

The Governor did not request a common policy adjustment for provider rates.

JBC staff-estimated provider rate impact

1% increase = \$40.2 million General Fund

1% decrease = \$33.5 million General Fund

The provider rate base for an increase includes \$659.5 million General Fund for Community First Choice. The base for a decrease excludes the same amount. Per the JBC staff analyst for HCPF,

“If the JBC approves a common policy increase, these rates [for Community First Choice] should get added. The rates pay for services that help people with disabilities stay in a community setting. The direct service providers make near minimum wage. However, if the JBC approves a common policy decrease, these rates should NOT get included. The Community First Choice option has a maintenance of effort requirement. Colorado would lose the enhanced federal match for these services if it cut the rates.”

The provider rate base also excludes several rates where HCPF proposed a targeted rate adjustment. The JBC could choose to deny the targeted rate adjustment and instead do a common policy adjustment, or do the targeted rate adjustment and a common policy adjustment. The estimated base for the common policy assumes targeted adjustments are in lieu of a common policy adjustment.

Rates Excluded Because of Pending Targeted Request				
Item	Total Funds	General Fund	Cash Funds	Federal Funds
County Administration	\$113,495,560	\$18,633,167	\$26,005,759	\$68,856,634
Dental services	333,854,933	60,961,916	50,412,094	222,480,923
Rates above 95% of Medicare	759,830,611	225,682,782	36,589,100	497,558,729
Service management	199,800,769	62,566,518	16,782,034	120,452,217
Total	\$1,406,981,873	\$367,844,383	\$129,788,987	\$909,348,503

Summary of provider rate common policy base

Community Provider Rate Common Policy Scenarios								
Program	Estimated Base Eligible for Common Policy <u>Increase</u>		Estimated Base Eligible for Common Policy <u>Decrease</u>		1 percent increase 1.0%		1 percent decrease -1.0%	
	Total Funds	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds	General Fund
Health Care Policy and Financing								
Medical Service Premiums	\$6,651,895,241	\$2,494,934,259	\$5,272,254,390	\$1,835,431,906	\$66,518,952	\$24,949,343	\$52,722,544	\$18,354,319
Office of Community Living	1,222,451,036	600,967,072	1,222,451,036	600,967,072	12,224,510	6,009,671	12,224,510	6,009,671
County Administration	0	0	0	0	0	0	0	0
Behavioral Health	10,330,640	2,482,242	10,330,640	2,482,242	103,306	24,822	103,306	24,822
Subtotal - HCPF	\$7,884,676,917	\$3,098,383,573	\$6,505,036,066	\$2,438,881,220	\$78,846,768	\$30,983,836	\$65,050,360	\$24,388,812
Human Services								
Child Welfare and Youth Corrections	636,312,839	370,044,995	636,312,839	370,044,995	6,363,128	3,700,450	6,363,128	3,700,450
Behavioral Health	257,544,409	179,195,203	257,544,409	179,195,203	2,575,444	1,791,952	2,575,444	1,791,952
County Administration	100,319,500	32,835,564	100,319,500	32,835,564	1,003,195	328,356	1,003,195	328,356
Other	<u>21,670,843</u>	<u>13,644,967</u>	<u>21,670,843</u>	<u>13,644,967</u>	<u>216,708</u>	<u>136,450</u>	<u>216,708</u>	<u>136,450</u>
Subtotal - Human Services	\$1,015,847,591	\$595,720,729	\$1,015,847,591	\$595,720,729	\$10,158,475	\$5,957,208	\$10,158,475	\$5,957,208
Early Childhood								
Community and family support	\$101,578,437	\$71,299,329	\$101,578,437	\$71,299,329	1,015,784	712,993	1,015,784	712,993
Childcare assistance	163,953,005	32,058,921	163,953,005	32,058,921	1,639,530	320,589	1,639,530	320,589
Other	<u>6,124,954</u>	<u>3,497,354</u>	<u>6,124,954</u>	<u>3,497,354</u>	<u>61,250</u>	<u>34,974</u>	<u>61,250</u>	<u>34,974</u>
Subtotal - Early Childhood	\$271,656,396	\$106,855,604	\$271,656,396	\$106,855,604	\$2,716,564	\$1,068,556	\$2,716,564	\$1,068,556
Corrections								
Payments to private prisons	67,056,718	67,056,718	67,056,718	67,056,718	670,567	670,567	670,567	670,567
Medical and behavioral health services	14,041,779	14,041,779	14,041,779	14,041,779	140,418	140,418	140,418	140,418
Community programs	21,202,540	17,098,900	21,202,540	17,098,900	212,025	170,989	212,025	170,989
Payments to local jails	<u>9,969,844</u>	<u>9,969,844</u>	<u>9,969,844</u>	<u>9,969,844</u>	<u>99,698</u>	<u>99,698</u>	<u>99,698</u>	<u>99,698</u>
Subtotal - Corrections	\$112,270,881	\$108,167,241	\$112,270,881	\$108,167,241	\$1,122,708	\$1,081,672	\$1,122,708	\$1,081,672
Public Safety								
Community Corrections Programs	\$97,378,964	\$90,714,114	\$97,378,964	\$90,714,114	\$973,790	\$907,141	\$973,790	\$907,141
Public Health and Environment								
Local Public Health Agencies	\$17,994,220	\$16,228,617	\$17,994,220	\$16,228,617	\$179,942	\$162,286	\$179,942	\$162,286
Labor and Employment								
Independent Living Services	\$6,736,324	\$6,736,324	\$6,736,324	\$6,736,324	\$67,363	\$67,363	\$67,363	\$67,363
Military and Veterans' Affairs								
County Veterans Services	\$1,367,189	\$1,367,189	\$1,367,189	\$1,367,189	\$13,672	\$13,672	\$13,672	\$13,672
TOTAL	\$9,407,928,482	\$4,024,173,391	\$8,028,287,631	\$3,364,671,038	\$94,079,282	\$40,241,734	\$80,282,874	\$33,646,710

Optional discussion: Does the current common policy still make sense?

The provider rate common policy has existed in its current form for about 26 years. This section explores whether this policy still makes sense.

The origins of the current common policy

The JBC adopted the current common policy in FY 1998-99 because it was easier and cheaper than the previous method. The method prior to FY 1998-99 was thought to be cumbersome, difficult to apply accurately, and expensive.¹ Rates were divided into three main categories: personal services, food inflation, and medical inflation. The size of the adjustment varied by category, depending on changes to state employee salaries and state agency operating expenses.

Provider rate increases sometimes exceeded 5.0%, mainly due to the fact that employee salaries were heavily weighted in the calculation due to their large share of provider expenses. For FY 1998-99, the JBC approved a JBC staff recommendation to adopt a new policy, which remains in effect: a standard percentage change applied to most or all of the community provider base appropriations.

Common policy vs. inflation and state employees

The common policy is frequently compared to inflation in the Denver metro area and state employee salary changes (in percent terms). This practice dates back to FY 1999-2000, when JBC staff showed the JBC how much it would cost to match the rate of inflation.

Other purposes of the common policy

The common policy may be perceived as fairer than a policy where all rate changes are targeted, as may occur through:

- A budget request from a state agency
- Lobbying pressure on behalf of specific provider groups
- JBC member-initiated decisions
- JBC staff-initiated recommendations

The common policy may allow JBC members to avoid “choosing favorites” by applying the same rate change to all qualifying services. It may also benefit providers who are less able to compete for targeted rate adjustments.

¹ FY 2014-15 JBC staff figure setting, January 13, 2014: https://leg.colorado.gov/sites/default/files/comfig2_2.pdf, pages 5-6.

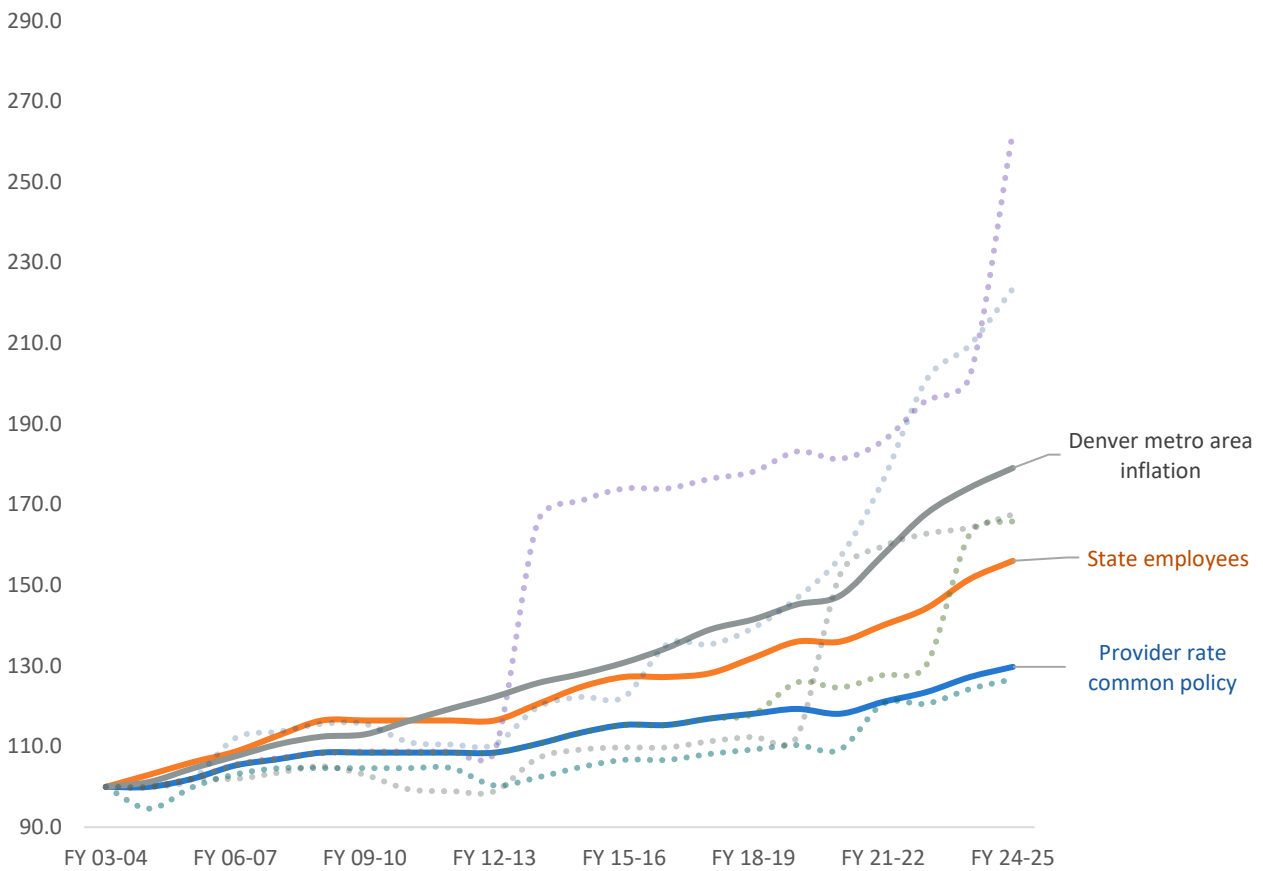
The common policy is also a more convenient mechanism for balancing the budget. JBC members are able to choose a percentage for balancing purposes based on the lump-sum cost of that percentage. It is therefore possible to adjust that lump sum up or down on relatively short notice to address budget balancing needs or desires.

Rates diverge and common policy grows slowly

The following graph compares five different provider rates to inflation, compensation for state employees, and the provider rate common policy. These rates are usually, if not always, part of the provider rate common policy base.

Growth in certain provider rates began to diverge in FY 13-14 (Index = 100 in FY 2003-04)

Dotted lines = Specific provider rates in health care and criminal justice



In JBC staff's view, two questions follow from this admittedly limited data set:

- 1 Why did some rates diverge?
- 2 Why is the rate of growth for the common policy so much lower than almost everything else?

Why did some rates diverge?

JBC staff tentatively concludes that there are at least two related factors.

First, the provider rates languished in the 2000s and early 2010s due to economic recessions.

The provider rate common policy increased by 8.3% from FY 2003-04 to FY 2012-13. In that same time frame, inflation increased by 20.4% and state employee salaries increased by 15.5%. The actual change for some provider rates was considerably less than 8.3% due to targeted rate reductions for budget balancing purposes.

Second, different processes for making targeted rate adjustments emerged (or did not emerge) among different service types after the Great Recession. These processes emerged, in part, to deal with the fact that adjusting the common policy to match the annual rate of inflation was not going to make up for more a decade of underinvestment. And it was too expensive to re-index the provider rate common policy to inflation after the Great Recession. This would have required a common policy increase of well over 10.0%.

Targeted adjustment processes tend to boost rates, in part, by putting a decision in front of the JBC. One example of this is the Medicaid Provider Rate Review Advisory Committee (MPRRAC). The absence of a process produces very different outcomes, ranging from almost no targeted rate adjustments to occasional but very large adjustments.

Why does the provider rate common policy grow more slowly?

JBC staff cannot provide a conclusive answer to this question. But staff thinks that at least one explanation is plausible and probably unsurprising: it is very expensive to match the provider rate with inflation and state employee salaries, especially after high inflation rates and large increases for state employees in recent years.

The impact of a 1.0% adjustment to the common policy more than doubled in the 12 years following the Great Recession. For FY 2013-24, a 1.0% increase was \$17.1 million General Fund. For FY 2025-26, it is closer to \$40.2 million General Fund.

Why? The provider rate base for HCPF and Human Services increased by 132.6% and 115.0% over that time period, respectively.² These increases account for about 98.0% of the total change in the provider rate base. Caseload, investments by the General Assembly, and targeted rate increases all played a role, though JBC staff cannot say at this time exactly how much each factor accounted for.

² Includes Early Childhood as a part of Human Services, where it was housed prior to becoming the newest state department.

Implications of slow-growing common policy for non-HCPF and Human Services providers

It erodes the purchasing power of providers in other domains, especially in the absence of coherent processes for targeted rate adjustments. It is very expensive to match the current common policy with inflation or state employee salary increases. Perhaps prohibitively so. For example, a 2.4% increase for the current common policy base would cost about \$96.5 million General Fund. This creates pressure to reduce the common policy adjustment as cost saving measure. This consequently puts downward pressure on provider rates in other domains, even though an inflationary adjustment for those other domains is far less expensive. For example, a 2.4% increase for non-HCPF and Human Services providers would be \$7.9 million General Fund.

Common policy alternative

Executive Branch model: Treat HCPF differently

For at least the past decade, the Executive Branch has requested two common policy rate adjustments: one for HCPF and one for everybody else. For example, for FY 2014-15 the Executive Branch requested a 1.5% common policy increase for non-HCPF providers and a 1.0% increase for HCPF providers. For FY 2018-19, it was 1.0% and 0.77%, respectively. For FY 2023-24, it was 3.0% non-HCPF and 0.5% for HCPF.

This model addresses the outsized cost of a common policy adjustment for HCPF providers relative to other providers. Specifically, non-HCPF providers receive a higher rate increase than non-HCPF providers, in part because the cost is more affordable for the former.

Over the past decade, JBC staff has recommended against this approach because it is not in keeping with the JBC's common policy. Staff has also argued that applying the common policy to HCPF providers mitigates the cost of future targeted rate increases. Additionally, costs for some services grow faster than others. It is possible that, in some cases, the combination of targeted rate increases and a slow-growing common policy still does not keep pace with the cost of providing a given service.

Staff acknowledges that there are benefits and drawbacks to each approach. In one, the current common policy, most providers benefit equally, albeit at a much lower rate that does not track with inflation or state employees. Providers that do not receive targeted rate adjustments are disproportionately and negatively affected by this arrangement. In the other, the Executive Branch model, most providers—those in HCPF—benefit less than providers in other domains. But providers in those other domains are more likely to see rate increases that are commensurate with comparable measures, if only because it is cheaper than the current common policy.