

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Joint Budget Committee
FROM Eric Kurtz, JBC Staff (303-866-4952)
DATE March 17, 2017
SUBJECT Community Provider Rates

STATUS

The JBC tabled a decision on the community provider rate common policy until later in the budget process.

NEW INFORMATION

Since the original staff recommendation, the JBC has made decisions on funding levels for programs eligible for the community provider rate common policy and those decisions slightly change the total estimated cost of a community provider rate adjustment. In addition, new information is available on some of the potential benchmarks for a community provider rate adjustment, such as the Consumer Price Index (CPI).

In the Copy of Original Recommendation section below the JBC staff has updated figures wherever there is new information by showing the old text in struck type and the new information in grey. The table at the end is a complete replacement of the original.

COPY OF ORIGINAL RECOMMENDATION

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, Human Services, Health Care Policy and Financing, Public Safety, Public Health and Environment, and Labor and Employment. 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 2017-18 the Governor proposes no common policy adjustment for community provider rates.

STAFF RECOMMENDATION

Staff recommends that the JBC implement a community provider rate adjustment equal to 60 percent of the percentage change the Committee approves for state employee salaries. If the JBC approves the Governor's request for a 2.5 percent increase in state employee wages, then doing 60 percent of that increase for community providers would require a 1.5 percent increase for community providers. A 1.5 percent increase for community providers would cost approximately ~~\$86.0 million~~ \$86.1 million total funds, including ~~\$33.6 million~~ \$34.3 million General Fund.

The JBC staff recommendation is based on a goal of trying to achieve parity between inflationary increases for state employees and for community providers. There is not sufficient data to calculate what it would require to offer community providers funding equivalent to the salary increases offered to state employees. As a proxy, some JBC members in the past have focused on the overall percentage increase in state employee salaries, which is not a perfect comparison, because the mix of different job classes employed by community providers is not the same as the mix of job classes employed by the state, but it represents a similar aggregate effort. The main problem with this approach is that not all community provider costs are related to compensation. Community providers spend some of their total reimbursement on operating expenses such as rent, utilities, office supplies, equipment, and insurance. Giving community providers the same percentage increase as the increase in state employee salaries provides too much funding for the community providers, unless the goal is to also increase operating funds. To provide an adjustment for community providers for salaries that is on par with the salary adjustment for state employees requires discounting the base expenditure on community provider rates by the amount spent on operating expenses. However, community providers do not routinely report the portion of their expenses for compensation versus operations, so the JBC staff had to make an educated guess at an appropriate discount rate.

The selected discount rate of 60 percent is based on data 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 20 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 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 from 2015 to 2007. For all health-related industry classes the ratio of compensation expenses to total expenses was remarkably consistent over time, ranging from a high of 57.2 percent in 2014 to a low of 56.1 percent in 2007. When comparing individual health-related industry classes the average ratio over the nine years ranged from a high of 72.2 percent for

Home Health Care Services to a low of 51.8 percent for Other Ambulatory Health Care Services. The nine-year average ratio for all health-related industry classes was 58.6 percent, which is not very different from the 60 percent ratio observed by the JBC for providers affected by the common policy way back in FY 1997-98. The health related industry classes in the Census data are not a perfect mirror of the types of providers affected by the community provider rate. Approximately 81 percent of the community provider rate common policy adjustment goes to providers of health care and long-term services and supports who are paid by the Department of Health Care Policy and Financing, but the remainder goes to other types of providers such as providers of child welfare services and adult and youth corrections providers. 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.

Several economic indicators suggest that community provider costs are increasing. Legislative Council Staff estimates the Denver/Boulder/Greeley consumer price index (CPI) for calendar year 2016 will be up ~~2.9 percent (based on data through November)~~ 2.8 percent. For eligible community providers the majority of expenditures are for compensation and the national Employment Cost Index (ECI) that measures the cost of civilian compensation is expected to increase 2.2 percent. Most of the providers eligible for the common policy offer health care services and the national CPI for health services is expected to increase ~~3.8 percent~~ 3.9 percent.¹

The table on the next page shows the estimated base eligible for the community provider rate common policy. The JBC staff estimates that each 0.5 percent change in community provider rates changes expenditures by approximately \$28.7 million total funds, including ~~\$11.2 million~~ \$11.4 million General Fund. The cost of the staff recommendation, if the JBC approves a 2.5 percent increase in state employee salaries, is highlighted with a dotted box. However, the staff recommendation is to index the community provider rate increase to the increase in state employee salaries, and so if the JBC approves a different amount for state employee salaries than the Governor requested, then the JBC staff would recommend adjusting the community provider rate appropriation accordingly. For example, if the JBC approved a 1.5 percent increase for employee salaries, then the JBC staff would recommend an increase for community providers equal to 60 percent of that amount, or 0.9 percent, for an increase of ~~\$51.6 million~~ \$51.7 million total funds, including ~~\$20.2 million~~ \$20.6 million General Fund.

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 a new 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.

¹ Legislative Council Staff uses a forecast from Moody's to estimate the changes in both the Employment Cost Index and the CPI for health services.

General Fund Impact Scenarios									
Program	Estimated Base Eligible for Common Policy				Staff Rec. 60% of Salary Survey	Employment Cost Index (National)	Salary Survey Request	CPI Denver/ Boulder/Greeley (CY 2016)	CPI Health (National)
	Total Funds	General Fund	-0.5%	0.9%	1.5%	2.2%	2.5%	2.8%	3.9%
Health Care Policy and Financing									
Medical Service Premiums	\$4,105,613,572	\$1,311,691,068	(\$6,558,455)	\$11,805,220	\$19,675,366	\$28,857,203	\$32,792,277	\$36,727,350	\$51,155,952
Office of Community Living	522,692,925	271,242,151	(1,356,211)	2,441,179	4,068,632	5,967,327	6,781,054	7,594,780	10,578,444
Human Services	24,248,418	12,124,210	(60,621)	109,118	181,863	266,733	303,105	339,478	472,844
Behavioral Health	<u>8,847,038</u>	<u>1,911,520</u>	<u>(9,558)</u>	<u>17,204</u>	<u>28,673</u>	<u>42,053</u>	<u>47,788</u>	<u>53,523</u>	<u>74,549</u>
Subtotal - HCPF	\$4,661,401,953	\$1,596,968,949	(\$7,984,845)	\$14,372,721	\$23,954,534	\$35,133,316	\$39,924,224	\$44,715,131	\$62,281,789
Human Services									
Child Welfare and Youth Corrections	469,261,427	289,877,209	(1,449,386)	2,608,895	4,348,158	6,377,299	7,246,930	8,116,562	11,305,211
Child Care	154,035,767	52,900,573	(264,503)	476,105	793,509	1,163,813	1,322,514	1,481,216	2,063,122
Behavioral Health	129,302,132	107,238,984	(536,195)	965,151	1,608,585	2,359,258	2,680,975	3,002,692	4,182,320
County Administration	74,100,837	24,666,869	(123,334)	222,002	370,003	542,671	616,672	690,672	962,008
Other	<u>18,594,333</u>	<u>12,430,775</u>	<u>(62,154)</u>	<u>111,877</u>	<u>186,462</u>	<u>273,477</u>	<u>310,769</u>	<u>348,062</u>	<u>484,800</u>
Subtotal - Human Services	\$845,294,496	\$487,114,410	(\$2,435,572)	\$4,384,030	\$7,306,717	\$10,716,518	\$12,177,860	\$13,639,204	\$18,997,461
Corrections									
In-state private prisons	60,908,396	58,830,676	(294,153)	529,476	882,460	1,294,275	1,470,767	1,647,259	2,294,396
Community Corrections Programs	31,820,206	28,337,979	(141,690)	255,042	425,070	623,436	708,449	793,463	1,105,181
Payments to local jails	14,825,863	14,825,863	(74,129)	133,433	222,388	326,169	370,647	415,124	578,209
Pre-release parole revocation facilities	<u>11,699,208</u>	<u>11,699,208</u>	<u>(58,496)</u>	<u>105,293</u>	<u>175,488</u>	<u>257,383</u>	<u>292,480</u>	<u>327,578</u>	<u>456,269</u>
Subtotal - Corrections	\$119,253,673	\$113,693,726	(\$568,468)	\$1,023,244	\$1,705,406	\$2,501,263	\$2,842,343	\$3,183,424	\$4,434,055
Public Safety									
Community Corrections Programs	<u>66,605,445</u>	<u>61,407,676</u>	<u>(307,038)</u>	<u>552,669</u>	<u>921,115</u>	<u>1,350,969</u>	<u>1,535,192</u>	<u>1,719,415</u>	<u>2,394,899</u>
Subtotal - Public Safety	\$66,605,445	\$61,407,676	(\$307,038)	\$552,669	\$921,115	\$1,350,969	\$1,535,192	\$1,719,415	\$2,394,899
Judicial Department									
Probation and Related Services	<u>33,500,000</u>	<u>15,200,000</u>	<u>(76,000)</u>	<u>136,800</u>	<u>228,000</u>	<u>334,400</u>	<u>380,000</u>	<u>425,600</u>	<u>592,800</u>
Subtotal - Judicial	\$33,500,000	\$15,200,000	(\$76,000)	\$136,800	\$228,000	\$334,400	\$380,000	\$425,600	\$592,800
Public Health and Environment									
Local Public Health Agencies	<u>9,150,312</u>	<u>6,671,728</u>	<u>(33,359)</u>	<u>60,046</u>	<u>100,076</u>	<u>146,778</u>	<u>166,793</u>	<u>186,808</u>	<u>260,197</u>
Subtotal - Public Health and Enviro.	\$9,150,312	\$6,671,728	(\$33,359)	\$60,046	\$100,076	\$146,778	\$166,793	\$186,808	\$260,197
Labor and Employment									
Independnt Living Services	<u>6,963,800</u>	<u>6,574,679</u>	<u>(32,873)</u>	<u>59,172</u>	<u>98,620</u>	<u>144,643</u>	<u>164,367</u>	<u>184,091</u>	<u>256,412</u>
Subtotal - Labor and Employment	\$6,963,800	\$6,574,679	(\$32,873)	\$59,172	\$98,620	\$144,643	\$164,367	\$184,091	\$256,412
TOTAL	\$5,742,169,679	\$2,287,631,168	(\$11,438,155)	\$20,588,682	\$34,314,468	\$50,327,887	\$57,190,779	\$64,053,673	\$89,217,613