

# MEMORANDUM

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**TO: Joint Budget Committee**  
**FROM: JBC Staff**  
**SUBJECT: Community Provider Rates Figure Setting for FY 2008-09 and FY 2009-2010**  
**DATE: February 2, 2009**

The JBC has historically made a determination on a common figure setting policy to be applied for community provider rate increases. The "community provider" common policy applies to selected line items in the Departments of Corrections, Human Services, Health Care Policy and Financing, and Public Safety that are used to fund services that might otherwise be delivered by state FTE. The attached spreadsheets identify the major programs commonly affected, *e.g.* private prisons and child welfare services. The rate is applied by staff, as appropriate, in each respective community provider budget's figure setting recommendation to the JBC. Exceptions and opportunities for reconsideration on a provider by provider basis are available at that time.

In light of state revenue shortfalls and an Executive request for provider rate reductions for both FY 2008-09 and FY 2009-10, this packet includes specific staff recommendations for FY 2008-09 provider rates for each program and department and a more general recommendation for FY 2009-10 common policy for provider rates. On January 29, 2009, the JBC took action on FY 2008-09 provider rate reductions for the Department of Health Care Policy and Financing. No action has yet been taken on FY 2008-09 provider rates for other departments or on a common policy for FY 2009-10.

Staff anticipates that FY 2008-09 adjustments will be consistent with those shown in the attached spreadsheets. However, staff requests some flexibility for technical corrections that may be needed for FY 2008-09 when applying any policy adopted. More specific impacts of any policy adopted for FY 2009-10 will be addressed during the staff FY 2009-10 figure setting presentations.

## **FY 2008-09 Figure Setting**

**Executive Request.** The executive budget request for FY 2008-09, including adjustments submitted January 15, 2009, included various requests to roll-back FY 2008-09 provider rate increases and, in some cases, take additional rate reductions.

*Department of Corrections:* Eliminate the entire 4.25 percent FY 2008-09 increase for private prisons for five months.

*Department of Human Services:* Reduce provider rates in selected line items by 1.19 percent for five months. Line items affected included the two largest line items in the Division of Child Welfare (Child Welfare Services and Services for Children and Families), Developmental Disability Program Costs (Comprehensive Services only), and the Youth Corrections, Purchase of Contract Placements line item.

*Department of Health Care Policy and Financing (ONLY areas addressed in common policy rate setting):* Reduce provider rates for private duty nursing, hospice, and home health by 1.5 percent for

five months, with no other Home and Community Based Services reduction. Reduce county administration by approximately 3.0 percent for five months.

*Department of Public Safety:* No reduction was requested.

**Staff Recommendation.** The staff recommendation is to return most rates to FY 2007-08 levels for four months in FY 2008-09. Specific differences from the Executive request, and variations on this policy, are reflected below.

*Department of Corrections:* Staff recommends the Department request to return rates for private prisons to FY 2007-08 levels for five months. Minor adjustments to the figures shown may be required, based on other JBC supplemental actions for the Department of Corrections, so some flexibility in final calculations is requested.

*Department of Human Services:* Return provider rates to FY 2007-08 levels for the last four months of FY 2008-09 for selected line items. Line items affected are the same as those in the Department's request, with the exception that staff also recommends the reduction in the Mental Health and Alcohol and Drug Abuse Services section. Furthermore, although a four month reduction to FY 2007-08 rates should provide overall reductions similar to five months at a 1.19 percent reduction, there are various minor differences between staff and Department calculations for almost all line items. The reasons for differences include the following:

- Staff understands the Department targeted certain line items for reductions, rather than others, due to administrative feasibility. Staff believes this is appropriate; however, staff believes adjustments to the largest mental health and alcohol and drug abuse line items should also be feasible. Reductions in the mental health/alcohol and drug abuse area are limited to the Services for Indigent Mentally Ill Clients and Treatment and Detoxification Contracts line items.
- In the Disabilities area, the staff recommendation reflects three months of savings for the Medicaid Comprehensive Services and Targeted Case Management programs in the developmental disabilities Program Costs line item, and four months of savings in the Program Costs line item for all non-Medicaid programs. With respect to developmental disability Medicaid-funded Program Costs, the Department has confirmed that it is not administratively feasible to obtain five months of savings, due to noticing requirements, the detailed-nature of rate adjustments required, and the fact that payments for services are made one to two months after the service is delivered. Thus, a rate change March 1 will provide at most three months of savings.
- Staff calculations often differ from the Department's to avoid double-counting savings, *i.e.*, if another supplemental reduction has already reduced a line item, staff has generally assumed that an additional rate reduction savings cannot be taken on the funds already eliminated. In addition, staff fund splits in some cases differ from the Department's.

*Department of Health Care Policy and Financing (ONLY areas addressed in common policy rate setting):* The Committee has already taken action to reduce home health, private duty nursing and

hospice rates by 2.5 percent and other Home- and Community-based Services rates by 1.5 percent for the last three months of the year. It also approved a requested reduction of 3.0 percent for five months for county administration.

In lieu of the January 27 action on county administration, the Committee might consider applying the 1.5 percent reduction for four months to county administration, consistent with the staff recommendation for programs in the Department of Human Services and action taken in Health Care Policy and Financing for Home- and Community-based Services. This would reduce total savings from the rate reduction by about \$250,000 General Fund. Staff notes that counties have been significantly affected by an increase in applications for benefits due to the economic downturn. Further, it may be preferable to target county administration reductions in line items that do not draw a federal match.

*Department of Public Safety:* No reductions recommended, consistent with the request. Current provider rates are at approximately the FY 2001-02 level.

### **FY 2009-10 Figure Setting**

**Executive Request.** The FY 2009-10 request, as amended January 27, 2009, proposes to return provider rates to FY 2007-08 levels for most line items in the Department of Corrections and Human Services and includes deeper reductions in the Department of Health Care Policy and Financing.

*Department of Corrections:* Eliminate the entire 4.25 percent FY 2008-09 increase and eliminate the additional 4.25 percent FY 2009-10 increase included in the November 1, 2008 request for private prisons and pre-release prison costs. No reductions requested for jail backlog or community corrections.

*Department of Human Services:* Return all provider rates to FY 2007-08 levels, eliminating the 1.5 percent FY 2008-09 increase.

*Department of Health Care Policy and Financing (ONLY areas addressed in common policy rate setting):* Reduce county administration by approximately 7.4 percent. Reduce private duty nursing, hospice, and home-health by 4.33 percent. Reduce balance of Home and Community Based Services by 2.17 percent.

*Department of Public Safety:* No reductions requested.

**Staff Recommendation.** Staff recommends that the Committee adopt a common policy of returning rates to FY 2007-08 levels (a cut of approximately 1.48 percent from the level originally appropriated for FY 2008-09 for most programs, with reductions as great as 4.25 percent in the Department of Corrections). **This should yield savings of approximately \$15.8 million General Fund from the current FY 2008-09 base.** (This represents the total increase provided in FY 2008-09 for "common policy" line items.) Additional savings compared to the November 1, 2008 request are generated based on NOT providing an additional 4.25 percent increase for private prison beds as originally requested.

If additional reductions are desired, the Committee may adopt a greater common policy reduction. **A reduction of 1.0 percent to all provider rate line items generates savings of approximately \$9.6 million General Fund.**

Regardless of the common policy adopted, staff may recommend deviations during their figure setting presentations. Note that increases in the Departments of Corrections and Public Safety are applied on a per-bed basis, and some adjustments in Health Care Policy and Financing and Human Services are applied on a per-service basis. As a result, depending upon changes in the population anticipated to be served, the final impact of the provider rate increase may be higher or lower than the percentage increase on the bed-rate. In general, the figures shown in the attached spreadsheets reflect estimates, and the final fiscal impact of any specific provider rate policy adopted will differ somewhat from the estimates shown.

**Common Policy Spreadsheets**

For purposes of assisting the Committee in deciding upon any adjustments to provider rates in the FY 2008-09 and FY 2009-10 budgets, staff has prepared spreadsheets containing the following:

- The FY 2008-09 provider increases provided by program and department;
- The FY 2008-09 Executive Request and Staff Recommendation by program and department, including an explanation of the policy requested and recommended;
- The FY 2009-10 Executive Request and an explanation of the policy requested;
- The base continuing funding for various community providers for FY 2009-10 per JBC staff calculations;
- The General Fund impact of each 0.5 percent increase or decrease on the staff-calculated base for FY 2009-10. (The staff-calculated base for FY 2009-10 generally includes projected annualization of major FY 2008-09 decision items and supplementals adopted *except* any FY 2008-09 provider rate reductions.)

**Background: Inflationary Increases**

The table below reflects the projected Denver-Boulder-Greeley Consumer Price Index (CPI) for recent calendar and fiscal years, based on Legislative Council Staff's December 2008 economic forecast.

Calendar Year	Denver-Boulder-Greeley CPI	Fiscal Year	Denver-Boulder-Greeley CPI
CY 2008 Estimate	3.0%	FY 2007-08 Actual	2.8%
CY 2009 Estimate	1.8%	FY 2008-09 Estimate	1.5%
CY 2010 Estimate	2.8%	FY 2009-10 Estimate	3.0%

**Staff Observations**

- Given the current economic situation, staff believes some across-the-board provider rate reductions are appropriate.

- Failure to provide adequate provider rates may result in the erosion of community services. If the State is unable to provide adequate rates, it may need to adjust providers' contractual obligations. Since FY 1999-00 (the second year the current rate setting approach was used), community provider rate increases—when provided at all—have often been lower than inflation. Community providers generally need to provide salary increases for staff and must provide for other annual inflationary increases in their budgets. If reimbursement levels from the State are too low, some community providers may stop providing services for the State. Having community providers provide services, rather than state personnel, is expected to be less expensive than having services provided directly by the State.

**History of the Community Provider Rate Increase**

Through FY 1997-98, the Committee provided community providers with cost of living increases based on statewide salary survey increases for personal services and state inflationary increases for operating expenses. This often led to increases of over five percent per year, since community provider personal services constitute over 60 percent of most community providers' budgets and often more than this. This approach was also cumbersome and difficult to apply accurately. Therefore, based on a staff recommendation for FY 1998-99, the Committee moved to a standard percentage increase for community providers that was applied to the entire community provider base. The first year the rate was applied, community providers received an increase at approximately the projected rate of inflation (although actual inflation was ultimately lower). For FY 1999-00, FY 2000-01, and FY 2001-02 the Committee funded community providers at less than the projected rate of inflation. An increase awarded in FY 2002-03 was subsequently retracted, due to revenue shortfalls. No increases were provided for FY 2003-04 or FY 2004-05. A 2.0 percent increase was provided for FY 2005-06, a 3.25 percent increase was provided for FY 2006-07, and 1.5 percent increases were provided for FY 2007-08 and FY 2008-09.

Year	Community Provider Increase		State Department Increases*		Denver-Boulder CPI
FY 94-95	Personal Services	4.5%	Personal Services	4.5%	CY 94 4.4%
	Food inflation	1.8 %	Food inflation	3.6%	
	Medical inflation	3.3 %	Medical inflation	10.2%	
FY 95-96	Personal Services	6.0%	Personal Services	4.0%	CY 95 4.3%
	Food inflation	4.2%	Food inflation	4.2%	
	Medical inflation	4.8%	Medical inflation	9.6%	
FY 96-97	Personal Services	5.0%	Personal Services	4.3%	CY 96 3.5%
	Food inflation	2.2%	Food inflation	1.0%	
	Medical inflation	4.2%	Medical inflation	4.2%	
	Other operating	(1.0%)	Other operating	(1.0%)	
FY 97-98	Personal Services	5.0%	Personal Services	3.9%	CY 97 3.3%
	Food inflation	1.7%	Food inflation	1.7%	
	Medical inflation	3.7%	Medical inflation	3.7%	
FY 98-99	Total base increase	3.0%	Personal Services	6.2%	CY 98 2.4%
			Food inflation	1.6%	
			Medical inflation	3.3%	

Community Provider Rates

Year	Community Provider Increase	State Department Increases*	Denver-Boulder CPI
FY 99-00	Total base increase 2.0%	Personal Services 5.6% Food inflation 2.1% Medical inflation 3.2% Other operating (1.0%)	CY 99 2.9%
FY 00-01	Total base increase 2.0%	Personal Services 6.0% Food inflation 0.0% Medical inflation 0.0%	CY 00 4.0%
FY 01-02	Total base increase 2.5%	Personal Services 7.4% Food inflation 2.8% Medical inflation 5.8%	CY 01 4.7%
FY 02-03	Total base increase 0.0%	Personal Services 6.2% Food inflation 0.0% Medical inflation 0.0%	CY 02 1.9%
FY 03-04	Total base increase 0.0%	Personal Services 0.0% Food inflation 0.0% Medical inflation 0.0%	CY 03 1.1%
FY 04-05	Total base increase 0.0%	Personal Services 3.3% Food inflation 0.0% Medical inflation 0.0%	CY 04 0.1%
FY 05-06	Total base increase 2.0%	Personal Services 3.0% Food inflation 2.9% Medical inflation 2.5%	CY 05 2.1%
FY 06-07	Total base increase 3.25%	Personal Services 2.6% Food inflation 2.1% Medical inflation 2.0%	CY 06 3.6%
FY 07-08	Total base increase 1.50%	Personal Services** 4.75% Food inflation 1.8% Medical inflation 2.0%	CY 07 2.2%
FY 08-09	Total base increase 1.50%	Personal Services** 4.28% Food inflation 0.0% Medical inflation 0.0%	CY 08 3.0%

\*State personal services increases have historically been based on the average salary survey increase for the given year plus the average of 2.2 percent through FY 2001-02 for anniversary increases. Beginning in FY 2002-03, the State shifted to a performance based pay approach (PBP). Figures shown from FY 2002-03 forward include both salary survey and PBP.

\*\*These amounts exclude amounts set aside for SAED to reduce the Public Employees' Retirement Association's unfunded liability..

Rate/Program Area	FY 2008-09 Community Provider Rate Setting		Requested Rates Reduction		JBC Staff Recommended Reduction		FY 2008-09 Explanation: Request and Recommendation	
	Provider Rate Increases Appropriated FY 2008-09		FY 2008-09		FY 2008-09 (includes JBC Action Taken for HCPF on Jan. 29, 2009)			
	Total Funds	Net General Fund *	Total Funds	Net General Fund	Total Funds	Net General Fund		
Corrections								
Jail Backlog	118,195	118,195						
Pre-release Prison	588,672	588,672	(234,528)	(234,528)	(234,528)	(234,528)		
Community Corrections Programs	65,864	65,864	0	0	0	0		
In-State Private Prisons	4,017,052	4,017,052	(1,607,088)	(1,607,088)	(1,607,088)	(1,607,088)	Original appropriation included an increase of 4.25 percent for private prison providers and 1.5 percent for other providers. Supplemental Request and Recommendation reflect removing this for five months.	
Out-of-State Private Prisons	0	0	0	0	0	0		
Subtotal - Corrections	4,789,783	4,789,783	(1,841,616)	(1,841,616)	(1,841,616)	(1,841,616)		
Human Services								
Social Service Programs:								
County Administration	0	0	0	0	0	0	Original appropriation included 1.5 percent increase with the following exceptions: (1) No increase was provided for County Administration due to the increase included in H.B. 08-1250. (2) No increase was provided for Child Care Assistance because of the under-utilization of this appropriation. Requested reduction was for 1.19 percent for five months in selected line items. Staff recommendation is for return to FY 2007-08 rates for 4 months in selected line items.	
Child Welfare	5,721,447	3,203,144	(1,915,721)	(1,065,648)	(1,898,596)	(1,106,780)		
Child Care	27,594	0	0	0	0	0		
Mental Health and Alcohol and Drug Abuse Svcs.	844,925	772,816	0	0	(200,932)	(200,932)		
Developmental Disabilities	4,865,280	2,585,665	(1,489,040)	(705,405)	(1,043,224)	(597,962)		
Vocational Rehab., Independent Living, Commis. on Deaf	315,431	25,332	0	0	0	0		
Youth Corrections	1,135,482	1,101,045	(268,180)	(261,082)	(219,608)	(212,684)		
Subtotal - Human Services	12,910,159	7,688,002	(3,672,941)	(2,032,135)	(3,362,360)	(2,118,358)		
Health Care Policy and Financing (common policy only)								
Mental Health (Fee for Service)	0	0	0	0	0	0	Original appropriation included 1.5 percent increase in certain traditional provider rate increase areas, except that: (1) no increase was provided for County Admin. due to H.B. 08-1250 impact; (2) Mental Health fee for service not adjusted because of shrinking funding need. County reduction requested and approved of approximately 3.0 percent for five months. Requested HCBS reduction was for home health, private duty nursing, hospice only of 1.5 percent for five months. Committee action was for 1.5 percent reduction for HCBS for 3 months and 2.5 percent reduction for home health, private duty nursing, and hospice for 3 months.	
County Administration	0	0	(833,333)	(416,667)	(833,333)	(416,667)		
Administrative Case Management at Counties	0	0	0	0	0	0		
Home and Community Based Services	5,322,778	2,661,389	(1,161,593)	(563,258)	(2,067,099)	(1,033,550)		
Subtotal - Health Care Policy	5,322,778	2,661,389	(1,994,926)	(979,925)	(2,900,432)	(1,450,217)		
Public Safety								
Community Corrections Programs	666,580	659,257	0	0	0	0	Original appropriation included combination of general increase of 0.95 percent and incentives for low-risk providers. No supplemental reduction is requested or recommended.	
<b>Total :</b>	<b>23,689,300</b>	<b>15,798,431</b>	<b>(7,509,483)</b>	<b>(4,853,676)</b>	<b>(8,104,408)</b>	<b>(5,410,191)</b>		

\*Net General Fund includes both direct General Fund appropriations and General Fund appropriations to the Department of Health Care Policy and Financing that are transferred to the Department of Human Services as reappropriated funds.

Rate/Program Area	FY 2009-10 Community Provider Rate Setting								
	Requested Rates Reduction FY 2009-10 from November 1, 2008 Request			Estimated Continuing Base for FY 2009-10 (PRIOR to any FY 2008-09 provider rate reduction but incorporating other ongoing FY 08-09 adjustments)		GF Impact of Each 0.5% Increase or Decrease in Base - JBC Staff Calculation			
	Total Funds	Net General Fund	FY 2009-10 Explanation: Request	Total Funds	Net General Fund	0.5%	1.0%	1.5%	2.0%
Corrections									
Jail Backlog				7,949,041	7,949,041	39,745	79,490	119,236	158,981
Pre-release Prison	(1,133,944)	(1,133,944)	Request is to return most rates to FY 2007-08 levels, eliminating FY 2008-09 4.25 percent increase and additional 4.25 percent increase originally proposed for FY 2009-10. (Reduction shown here INCLUDES FY 2009-10 increase originally requested).	14,435,604	14,435,604	72,178	144,356	216,534	288,712
Community Corrections Programs	0	0		4,426,094	4,426,094	22,130	44,261	66,391	88,522
In-State Private Prisons	(5,600,522)	(5,600,522)		94,945,702	94,945,702	474,729	949,457	1,424,186	1,898,914
Out-of-State Private Prisons	0	0		0	0	0	0	0	0
Subtotal - Corrections	(6,734,466)	(6,734,466)			121,756,441	121,756,441	608,782	1,217,564	1,826,347
Human Services									
Social Service Programs:									
County Administration	0	0	Request is to return all rates to FY 2007-08 levels, eliminating the 1.5 percent increases provided for FY 2008-09. Reduction dollars are based on total funding originally added in FY 2008-09 for provider rate increases. In some cases, where base has been separately reduced or otherwise modified, the level of savings may differ.	51,138,883	20,227,939	101,140	202,279	303,419	404,559
Child Welfare	(5,721,447)	(3,151,421)		393,662,247	223,364,341	1,116,822	2,233,643	3,350,465	4,467,287
Child Care	(27,594)	0		77,735,764	15,354,221	76,771	153,542	230,313	307,084
Mental Health and Alcohol and Drug Abuse Svcs.	(884,631)	(780,033)		52,662,302	52,662,302	263,312	526,623	789,935	1,053,246
Developmental Disabilities	(4,404,353)	(2,086,875)		373,081,916	187,173,416	935,867	1,871,734	2,807,601	3,743,468
Vocational Rehab., Independent Living, Commis. on Deaf	(315,431)	(31,001)		21,893,150	1,814,113	9,071	18,141	27,212	36,282
Youth Corrections	(1,135,482)	(1,101,045)		67,920,746	65,590,514	327,953	655,905	983,858	1,311,810
Subtotal - Human Services	(12,488,938)	(7,150,375)		1,038,095,008	566,186,846	2,830,934	5,661,868	8,492,803	11,323,737
Health Care Policy and Financing (common policy only)									
Mental Health (Fee for Service)				459,161	229,581	1,148	2,296	3,444	4,592
County Administration	(2,000,000)	(1,000,000)	Request is for a reduction of approximately 7.4 percent in county administration, 4.33% in rates for private duty nursing, hospice, and home health and 2.17% for other Home and Community Based Services.	27,203,133	8,248,943	41,245	82,489	123,734	164,979
Administrative Case Management at Counties	0	0		2,917,528	1,458,764	7,294	14,588	21,881	29,175
Home and Community Based Services	(13,587,500)	(6,793,750)		414,168,796	207,084,398	1,035,422	2,070,844	3,106,266	4,141,688
Subtotal - Health Care Policy	(15,587,500)	(7,793,750)		444,748,618	217,021,686	1,085,108	2,170,217	3,255,325	4,340,434
Public Safety									
Community Corrections Programs	0	0	No reduction requested. Provider per-diem is \$37.74 compared to \$37.72 in FY 2001-02	52,456,976	51,661,038	258,305	516,610	774,916	1,033,221
<b>Total :</b>	<b>(34,810,904)</b>	<b>(21,678,591)</b>		<b>1,657,057,043</b>	<b>956,626,011</b>	<b>4,783,130</b>	<b>9,566,260</b>	<b>14,349,390</b>	<b>19,132,520</b>

Rate/Program Area	GF Impact of Each 0.5% Increase or Decrease in Base - JBC Staff Calculation			
	3.0%	3.5%	4.5%	5.0%
Corrections				
Jail Backlog	238,471	278,216	357,707	397,452
Pre-release Prison	433,068	505,246	649,602	721,780
Community Corrections Programs	132,783	154,913	199,174	221,305
In-State Private Prisons	2,848,371	3,323,100	4,272,557	4,747,285
Out-of-State Private Prisons	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - Corrections	3,652,693	4,261,475	5,479,040	6,087,822
Human Services				
Social Service Programs:				
County Administration	606,838	707,978	910,257	1,011,397
Child Welfare	6,700,930	7,817,752	10,051,395	11,168,217
Child Care	460,627	537,398	690,940	767,711
Mental Health and Alcohol and Drug Abuse Svcs.	1,579,869	1,843,181	2,369,804	2,633,115
Developmental Disabilities	5,615,202	6,551,070	8,422,804	9,358,671
Vocational Rehab., Independent Living, Commis. on Deaf	54,423	63,494	81,635	90,706
Youth Corrections	<u>1,967,715</u>	<u>2,295,668</u>	<u>2,951,573</u>	<u>3,279,526</u>
Subtotal - Human Services	16,985,605	19,816,540	25,478,408	28,309,342
Health Care Policy and Financing (common policy only)				
Mental Health (Fee for Service)	6,887	8,035	10,331	11,479
County Administration	247,468	288,713	371,202	412,447
Administrative Case Management at Counties	43,763	51,057	65,644	72,938
Home and Community Based Services	<u>6,212,532</u>	<u>7,247,954</u>	<u>9,318,798</u>	<u>10,354,220</u>
Subtotal - Health Care Policy	6,510,651	7,595,759	9,765,976	10,851,084
Public Safety				
Community Corrections Programs	1,549,831	1,808,136	2,324,747	2,583,052
<b>Total :</b>	<b>28,698,780</b>	<b>33,481,910</b>	<b>43,048,170</b>	<b>47,831,301</b>