

MEMORANDUM

TO: Joint Budget Committee
FROM: JBC Staff
SUBJECT: Community Provider Rates Figure Setting FY 2010-11
DATE: January 27, 2010 - CORRECTED

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. Based on Committee decisions, the rate has historically been applied by staff in each respective community provider budget's figure setting recommendation to the JBC.

Since the budget crisis began in FY 2008-09, the Committee has not applied provider rate adjustments consistently across departments. Reductions proposed by the Executive for FY 2010-11, as well as reductions approved by the JBC for FY 2008-09 and FY 2009-10, vary considerably by department. The attached information should enable the Committee to:

- Compare the range of actions taken to-date across departments and programs (for context when examining specific Executive proposals);
- Establish a common policy if desired;
- Estimate the additional savings that may be taken beyond what has been proposed by the Executive, if additional savings are required.

Summary

As reflected in the spreadsheets:

- **A 1.0 percent decrease to provider rates provides estimated savings of \$18.5 million General Fund.**
- This figure *includes* adjustments in Health Care Policy and Financing that have not always been included in common policy calculations.
- This reflects an estimate for across-the-board savings. For some programs, additional percentage cuts may not be feasible, *e.g.*, due to federal restrictions or actuarial requirements. If the Committee adopts a common policy, staff will provide detailed calculations during figure setting, and the Committee will have the opportunity to adjust its action for particular programs at that time.

Summary of Rate Adjustments Approved and Proposed Since FY 2008-09 Long Bill

	FY 2008-09 Long Bill	FY 2008-09 Final Appropriation with supplemental cuts	FY 2009-10 JBC Action to-date including supplemental cuts	FY 2010-11 Executive Request	Total Reduction Proposed from FY 2008-09 Long Bill to FY 2010-11 Request
Corrections	Add 4.25 percent (private prisons); 1.5 percent other line items	Eliminate 4.25 percent for private prisons mid-year, returning rates to FY 07-08 level. Retain other adjustments.	Retain rates at level in place at end of FY 2008-09 (same as FY 2007-08 for private prisons; same as FY 2008-09 for others).	No further rate changes proposed	Private prison rates held at FY 2007-08 level (level in place at end of FY 2008-09); other rates held at FY 2008-09 level.
Human Services	Add 1.5 percent to most community provider programs	No further adjustments. Retain FY 2008-09 rates as originally enacted.	Selected reductions: --youth corrections contract rate reduction of 2.0 percent October 1, 2009; --Developmental disability Medicaid waiver rate reduction of 2.5 percent applied October 1, 2009; --Child welfare services block cut of 2.4 percent (may be managed via rate cuts and/or other program adjustments).	2.0 percent rate reductions proposed for most programs. --youth corrections does not compound with FY 2009-10 cut but is applied to inflated base, resulting in a 2.4 percent cut to contract placements; --Developmental disabilities cut <i>does</i> compound with FY 2009-10 reduction; --Child welfare services cut does compound with FY 2009-10 reduction.	Cuts from FY 2008-09 Long Bill range from 2.0 percent for programs not previously affected (returning rates to 0.5 percent below FY 2007-08 level) to 4.5 percent for developmental disability Medicaid rates and 4.4 percent for child welfare county allocations.
Health Care Policy and Financing	Various increases provided, including 1.5 percent to hospitals and home and community-based services	No further adjustments. Retained FY 2008-09 rates as originally enacted.	2.0 percent reduction to most line items (acute care and HCBS) effective July 1, 2009. Additional 1.5 percent September 1, 2009. Additional 1.0 percent cut December 1, 2009.	Additional 1.0 percent reduction proposed for July 1, 2010.	Cuts of 5.5 percent to most programs from FY 2008-09 Long Bill level to FY 2010-11 proposal.
Public Safety	Various adjustments provided with total impact of about 1.5 percent.	No further adjustments. Retained FY 2008-09 rates as originally enacted.	Retain rates at level in place in FY 2008-09.	No further rate changes proposed	No cuts proposed.

Common Policy Spreadsheets

For purposes of assisting the Committee in deciding upon any adjustments to provider rates in the FY 2010-11 budget, staff has prepared spreadsheets containing the following:

- The FY 2009-10 provider rate status based on JBC action to-date;
- The FY 2010-11 Executive Request and an explanation of the policy requested;
- The base continuing funding for various community providers for FY 2010-11 per JBC staff calculations;
- The General Fund impact of each 0.5 percent increase or decrease on the staff-calculated base for FY 2010-11. (The staff-calculated base for FY 2010-11 generally includes projected annualization of major FY 2009-10 decision items and supplementals adopted.)

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 2009 economic forecast.

Calendar Year	Denver-Boulder-Greeley CPI	Fiscal Year	Denver-Boulder-Greeley CPI
CY 2008 Actual	3.9%	FY 2007-08 Actual	2.8%
CY 2009 Estimate	(0.9%)	FY 2008-09 Estimate	1.7%
CY 2010 Estimate	0.6%	FY 2009-10 Estimate	(0.2%)
CY 2011 Estimate	1.1%	FY 2010-11 Estimate	0.6%

Staff Observations

- Given the current revenue situation, community provider rate reductions are a reasonable component of budget-balancing.
- For CY 2009 and FY 2009-10, Legislative Council Staff projects modest deflation, rather than inflation.
- Over time, failure to provide adequate provider rates is likely to 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.

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

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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/Decrease		State Department Increases*		Denver-Boulder CPI
FY 94-95	Personal Services	4.5%	Personal Services	4.5%	CY 94
	Food inflation	1.8 %	Food inflation	3.6%	4.4%
	Medical inflation	3.3 %	Medical inflation	10.2%	
FY 95-96	Personal Services	6.0%	Personal Services	4.0%	CY 95
	Food inflation	4.2%	Food inflation	4.2%	4.3%
	Medical inflation	4.8%	Medical inflation	9.6%	
FY 96-97	Personal Services	5.0%	Personal Services	4.3%	CY 96
	Food inflation	2.2%	Food inflation	1.0%	3.5%
	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
	Food inflation	1.7%	Food inflation	1.7%	3.3%
	Medical inflation	3.7%	Medical inflation	3.7%	
FY 98-99	Total base increase	3.0%	Personal Services	6.2%	CY 98
			Food inflation	1.6%	2.4%
			Medical inflation	3.3%	
FY 99-00	Total base increase	2.0%	Personal Services	5.6%	CY 99
			Food inflation	2.1%	2.9%
			Medical inflation	3.2%	
			Other operating	(1.0%)	
FY 00-01	Total base increase	2.0%	Personal Services	6.0%	CY 00
			Food inflation	0.0%	4.0%
			Medical inflation	0.0%	
FY 01-02	Total base increase	2.5%	Personal Services	7.4%	CY 01
			Food inflation	2.8%	4.7%
			Medical inflation	5.8%	
FY 02-03	Total base increase	0.0%	Personal Services	6.2%	CY 02
			Food inflation	0.0%	1.9%
			Medical inflation	0.0%	
FY 03-04	Total base increase	0.0%	Personal Services	0.0%	CY 03
			Food inflation	0.0%	1.1%
			Medical inflation	0.0%	

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Year	Community Provider Increase/Decrease	State Department Increases*	Denver-Boulder CPI
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 3.9%
FY 2009-10	Total base decrease Various	Personal Services*** (2.8)% Food inflation 0.0% Medical inflation 0.0%	CY 09 (0.9%)

*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.

***Reflects overall reduction to personal services line items, taken through furloughs and vacancy savings.

FY 2010-11 Community Provider Rate Setting

Rate/Program Area	DEPARTMENT REQUEST - Rates Reduction from FY 2009-10 per November 1, 2009 Request			JBC Staff - Estimated Continuing Base for FY 2010-11 Provider Rate Calculation (incorporates FY 2009-10 reductions)		GF Impact of Each 0.5% Increase or Decrease in Base - JBC Staff Calculation			
	Total Funds	Net General Fund	FY 2010-11 Explanation: Request	Total Funds	Net General Fund	0.5%	1.0%	1.5%	2.0%
Corrections									
Jail Backlog				8,086,364	8,086,364	40,432	80,864	121,295	161,727
Pre-release Prison	0	0		14,443,119	14,443,119	72,216	144,431	216,647	288,862
Community Corrections Programs	0	0		4,238,926	4,238,926	21,195	42,389	63,584	84,779
In-State Private Prisons	0	0		85,067,264	82,708,557	413,543	827,086	1,240,628	1,654,171
Out-of-State Private Prisons	0	0		n/a	n/a	0	0	0	0
Subtotal - Corrections	0	0	Rates held flat in FY 2009-10 and FY 2010-11. Request holds rates at level in place at end of FY 2008-09 (same level as FY 2007-08 for private prisons and FY 2008-09 for other providers; private prison increase was eliminated mid-FY 08-09).	111,835,673	109,476,966	547,385	1,094,770	1,642,154	2,189,539
Human Services									
Social Service Programs:									
County Administration	(1,022,778)	(404,559)	Request is for a 2.0 percent reduction from FY 2009-10 rates. For some programs (e.g., developmental disability Medicaid waiver programs), this is compounded with reductions taken for FY 2009-10. For other programs, this is the first and only reduction proposed. Programs with compounded impact since FY 2008-09 include developmental disability Medicaid rates (4.5 percent cut from FY 2008-09); and child welfare services block allocation cut (4.4 percent since FY 2008-09).	51,138,883	20,227,939	101,140	202,279	303,419	404,559
Child Welfare	(7,851,743)	(4,078,640)		390,851,200	203,932,000	1,019,660	2,039,320	3,058,980	4,078,640
Child Care	(41,104)	0		76,507,919	15,354,221	76,771	153,542	230,313	307,084
Mental Health and Alcohol and Drug Abuse Svcs.	(1,239,249)	(1,098,704)		52,662,302	52,662,302	263,312	526,623	789,935	1,053,246
Developmental Disabilities	(6,171,743)	(3,070,220)		339,576,440	184,977,060	924,885	1,849,771	2,774,656	3,699,541
Vocational Rehab., Independent Living, Commis. on Deaf	(289,787)	(46,977)		14,489,348	2,348,826	11,744	23,488	35,232	46,977
Youth Corrections	(1,440,269)	(1,376,527)		65,963,450	61,283,500	306,418	612,835	919,253	1,225,670
Subtotal - Human Services	(18,056,673)	(10,075,627)		991,189,542	540,785,848	2,703,929	5,407,858	8,111,788	10,815,717
Health Care Policy and Financing									
Acute Care Providers	(13,661,969)	(6,263,791)		1,650,571,562	626,379,100	3,131,896	6,263,791	9,395,687	12,527,582
Community LTC Providers (HCBS Waivers)	(2,773,803)	(1,379,970)	Request is for an FY 2010-11 reduction of 1.0 percent from FY 2009-10 rates. This adds to approved rate reductions for most programs of 4.5 percent by the end of FY 2009-10 for a total of 5.5 percent since FY 2008-09.	277,380,327	137,997,000	689,985	1,379,970	2,069,955	2,759,940
Long Term Care (Nursing Facilities and PACE)	(5,670,469)	(2,835,235)		579,703,240	283,523,500	1,417,618	2,835,235	4,252,853	5,670,470
Service Management	(231,079)	(120,161)		23,107,885	12,016,100	60,081	120,161	180,242	240,322
Mental Health Services*	(4,122,811)	(1,852,307)		206,140,539	92,615,350	463,077	926,154	1,389,230	1,852,307
Subtotal - Health Care Policy	(26,460,131)	(12,451,464)		2,736,903,553	1,152,531,050	5,762,655	11,525,311	17,287,966	23,050,621
Public Safety									
Community Corrections Programs	0	0	No reduction proposed or applied since FY 2008-09. (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
Total :	(44,516,804)	(22,527,091)		3,892,385,744	1,854,454,902	9,272,275	18,544,549	27,816,824	37,089,098

FY 2010-11 Community Provider Rate Setting

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	242,591	283,023	363,886	404,318
Pre-release Prison	433,294	505,509	649,940	722,156
Community Corrections Programs	127,168	148,362	190,752	211,946
In-State Private Prisons	2,481,257	2,894,799	3,721,885	4,135,428
Out-of-State Private Prisons	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - Corrections	3,284,309	3,831,694	4,926,463	5,473,848
Human Services				
Social Service Programs:				
County Administration	606,838	707,978	910,257	1,011,397
Child Welfare	6,117,960	7,137,620	9,176,940	10,196,600
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	5,549,312	6,474,197	8,323,968	9,248,853
Vocational Rehab., Independent Living, Commis. on Deaf	70,465	82,209	105,697	117,441
Youth Corrections	<u>1,838,505</u>	<u>2,144,923</u>	<u>2,757,758</u>	<u>3,064,175</u>
Subtotal - Human Services	16,223,575	18,927,505	24,335,363	27,039,292
Health Care Policy and Financing				
Acute Care Providers	18,791,373	21,923,269	28,187,060	31,318,955
Community LTC Providers (HCBS Waivers)	4,139,910	4,829,895	6,209,865	6,899,850
Long Term Care (Nursing Facilities and PACE)	8,505,705	9,923,323	12,758,558	14,176,175
Service Management	360,483	420,564	540,725	600,805
Mental Health Services*	<u>2,778,461</u>	<u>3,241,537</u>	<u>4,167,691</u>	<u>4,630,768</u>
Subtotal - Health Care Policy	34,575,932	40,338,587	51,863,897	57,626,553
Public Safety				
Community Corrections Programs	1,549,831	1,808,136	2,324,747	2,583,052
Total :	55,633,647	64,905,922	83,450,471	92,722,745