

# MEMORANDUM

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**TO: Joint Budget Committee**  
**FROM: Amanda Bickel and JBC Staff**  
**SUBJECT: Community Provider Rates Figure Setting FY 2011-12**  
**DATE: January 24, 2011**

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 and approved by the General Assembly for FY 2010-11, as well as reductions approved by the JBC for FY 2008-09 and FY 2009-10, varied considerably by department. **No rate adjustments have been proposed by the Executive for FY 2011-12.** The attached information should enable the Committee to:

- Compare the range of actions taken to-date across departments and programs;
- Establish a common policy if desired;
- Estimate the additional savings/expenditures that would result from further rate adjustments if these are required for budget balancing.

## Summary

As reflected in the spreadsheets:

- **A 1.0 percent decrease to provider rates provides estimated savings of \$16.3 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 Since FY 2008-09 Long Bill**

	<b>FY 2008-09 Long Bill</b>	<b>FY 2008-09 Final Appropriation with supplemental cuts</b>	<b>FY 2009-10 Final Action including supplemental cuts</b>	<b>FY 2010-11 Final Action</b>	<b>Total Reductions Enacted from FY 2008-09 Long Bill to FY 2010-11 (no further FY 2011-12 changes requested)</b>
<b>Corrections</b>	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.	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.
<b>Human Services</b>	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	2.0 percent rate reductions for most programs. --Prior youth corrections 2.0 percent reduction expanded to other line items; --Developmental disabilities 2.0 percent additional cut compounds with FY 2009-10 reduction; -- Child welfare services rate cut of 1.5 percent - 2.0 percent, depending on line item.	Cuts from FY 2008-09 Long Bill generally 2.0 percent (returning rates to 0.5 percent below FY 2007-08 level). Exceptions: reduction of 4.5 percent for developmental disability Medicaid rates; child welfare rate cut limited to 1.5 percent for largest line item, but this compounds with other reductions to child welfare county allocations.
<b>Health Care Policy and Financing</b>	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 effective July 1, 2010.	Cuts of 5.5 percent to most programs from FY 2008-09 Long Bill level to FY 2010-11 final action.
<b>Public Safety</b>	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 rate changes.	No changes from FY 2008-09 Long Bill.

**Common Policy Spreadsheets**

For purposes of assisting the Committee in deciding upon any adjustments to provider rates in the FY 2011-12 budget, staff has prepared spreadsheets containing the following:

- The FY 2011-12 Executive Request and an explanation of the policy requested (0 percent change in all departments);
- The base continuing funding for various community providers for FY 2011-12 per JBC staff calculations;
- The General Fund impact of each 0.5 percent increase or decrease on the staff-calculated base for FY 2011-12.

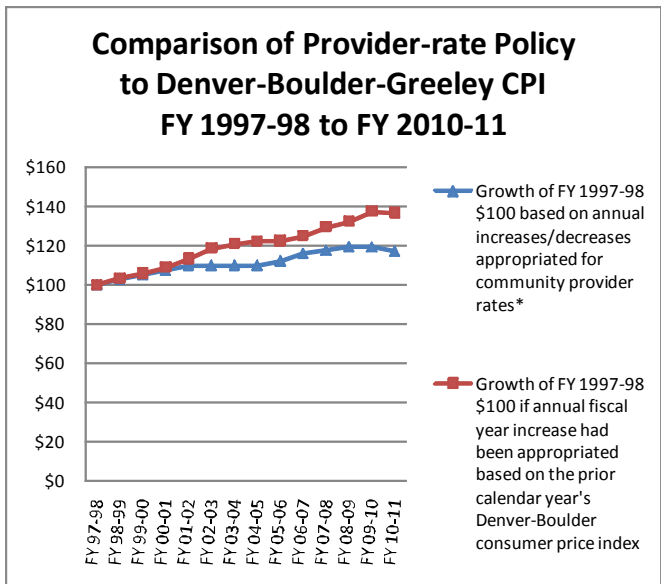
**Background: Inflationary Increases**

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 2010 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 Actual	(0.6%)	FY 2008-09 Actual	1.7%
CY 2010 Forecast	1.2%	FY 2009-10 Actual	0.5%
CY 2011 Forecast	1.9%	FY 2010-11 Forecast	0.9%
CY 2012 Forecast	2.9%	FY 2011-12 Forecast	3.0%

**Staff Observations**

- Community provider rate reductions are a reasonable component of budget-balancing. However, the capacity of community providers to absorb cuts is limited if their responsibilities are not changed. For most programs, absolute rates are now below FY 2007-08 levels.
- For CY 2009 there was modest deflation (-0.6 percent), rather than inflation. For CY 2010, Legislative Council staff projects 1.2 percent, for CY 2011, they project 1.9 percent and for CY 2012, they project 2.9 percent.
- 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. The chart below compares the increases that would have been provided on \$100 FY 1997-98 base applying community provider rate common policy versus applying the Denver-Boulder-Greeley consumer price index from the prior calendar year. Note: for FY 2009-10



and FY 2010-11, the Department of Human Services typical reduction is shown for the provider rate policy amount, although actual policy varied by Department.

**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. Starting in FY 2009-10, provider rates began to be reduced. Most rates are now at or below FY 2007-08 levels.

Year	Community Provider Increase/Decrease		State Department Increases*		Denver-Boulder CPI for prior calendar year
FY 94-95	Personal Services	4.5%	Personal Services	4.5%	CY 93
	Food inflation	1.8 %	Food inflation	3.6%	4.2%
	Medical inflation	3.3 %	Medical inflation	10.2%	
FY 95-96	Personal Services	6.0%	Personal Services	4.0%	CY 94
	Food inflation	4.2%	Food inflation	4.2%	4.4%
	Medical inflation	4.8%	Medical inflation	9.6%	
FY 96-97	Personal Services	5.0%	Personal Services	4.3%	CY 95
	Food inflation	2.2%	Food inflation	1.0%	4.3%
	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 96
	Food inflation	1.7%	Food inflation	1.7%	3.5%
	Medical inflation	3.7%	Medical inflation	3.7%	
FY 98-99	Total base increase	3.0%	Personal Services	6.2%	CY 97
			Food inflation	1.6%	3.3%
			Medical inflation	3.3%	
FY 99-00	Total base increase	2.0%	Personal Services	5.6%	CY 98
			Food inflation	2.1%	2.4%
			Medical inflation	3.2%	
			Other operating	(1.0%)	

Community Provider Rates

Page 5

Year	Community Provider Increase/Decrease	State Department Increases*	Denver-Boulder CPI for prior calendar year
FY 00-01	Total base increase 2.0%	Personal Services 6.0% Food inflation 0.0% Medical inflation 0.0%	CY 99 2.9%
FY 01-02	Total base increase 2.5%	Personal Services 7.4% Food inflation 2.8% Medical inflation 5.8%	CY 00 4.0%
FY 02-03	Total base increase 0.0%	Personal Services 6.2% Food inflation 0.0% Medical inflation 0.0%	CY 01 4.7%
FY 03-04	Total base increase 0.0%	Personal Services 0.0% Food inflation 0.0% Medical inflation 0.0%	CY 02 1.9%
FY 04-05	Total base increase 0.0%	Personal Services 3.3% Food inflation 0.0% Medical inflation 0.0%	CY 03 1.1%
FY 05-06	Total base increase 2.0%	Personal Services 3.0% Food inflation 2.9% Medical inflation 2.5%	CY 04 0.1%
FY 06-07	Total base increase 3.25%	Personal Services 2.6% Food inflation 2.1% Medical inflation 2.0%	CY 05 2.1%
FY 07-08	Total base increase 1.5%	Personal Services** 4.75% Food inflation 1.8% Medical inflation 2.0%	CY 06 3.6%
FY 08-09	Total base increase 1.5%	Personal Services** 4.28% Food inflation 0.0% Medical inflation 0.0%	CY 07 2.2%
FY 2009-10	Total base decrease Various	Personal Services*** (1.82)% Food inflation 0.0% Medical inflation 0.0%	CY 08 3.9%
FY 2010-11	Total base decrease Various	Personal Services**** (2.9)% Food inflation 0.0% Medical inflation 0.0%	CY 09 (0.6%)

\*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 of 1.82 percent to General-funded personal services line items, redistributed and taken through furloughs and vacancy savings. Reduction was one-time and not base-building.

\*\*\*\*Reflects a requirement that staff to contribute an additional 2.5 percent share of retirement (PERA) contributions and a reduction to selected General-funded personal service line items (\$5.3 million savings), with exceptions applied to certain kinds of positions (total cut represents 0.36 percent of base salaries). Reductions were one-time and not base-building.

**FY 2011-12 Community Provider Rate Setting**

Rate/Program Area	DEPARTMENT REQUEST - Rates Changes from FY 2011-12			JBC Staff - Estimated Continuing Base for FY 2011-12 Provider Rate Calculation	
	Total Funds	Net General Fund	FY 2011-12 Explanation: Request	Total Funds	Net General Fund
<b>Corrections</b>					
Jail Backlog				\$8,149,692	\$8,149,692
Pre-release Prison	\$0	\$0		12,985,082	12,985,082
Community Corrections Programs	0	0		12,147,733	12,147,733
In-State Private Prisons	0	0		52,691,125	52,691,125
Out-of-State Private Prisons	<u>0</u>	<u>0</u>		<u>n/a</u>	<u>n/a</u>
Subtotal - Corrections	0	0	No change requested. 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).	85,973,632	85,973,632
<b>Human Services</b>					
<b>Social Service Programs:</b>					
County Administration	0	0	No change requested. Most rates were reduced by	50,116,105	19,823,380
Child Welfare	0	0	2.0 percent in FY 2010-11, bringing them to 0.5	382,486,405	197,440,832
Child Care	0	0	percent below the FY 2007-08 level. For	74,286,322	14,604,221
Mental Health and Alcohol and Drug Abuse Svcs.	0	0	developmental disability Medicaid waiver	84,359,606	55,334,924
Developmental Disabilities	0	0	programs, the FY 2010-11 reduction compounded	339,430,731	185,394,565
Vocational Rehab., Independent Living, Commis. on Deaf	0	0	with an FY 2009-10 reduction for a 4.5 percent	1,844,160	1,457,604
Youth Corrections	0	0	total reduction. For child welfare services, the	<u>58,842,153</u>	<u>55,925,873</u>
Subtotal - Human Services	0	0	rate reduction was 1.5 percent for the largest line item and 2.0 percent for other line items for FY 2010-11.	991,365,482	529,981,399
<b>Health Care Policy and Financing</b>					
Acute Care Providers	0	0		1,556,269,266	657,983,656
Community LTC Providers (HCBS Waivers)	0	0	No change requested. Most rates were reduced	276,477,684	133,191,635
Long Term Care (PACE)	0	0	1.0 percent in FY 2010-11 from FY 2009-10	82,325,224	40,535,163
Service Management	0	0	rates. This added to approved rate reductions for	33,763,651	15,899,592
Mental Health Services*	0	0	most programs of 4.5 percent by the end of FY	<u>266,299,165</u>	<u>112,302,740</u>
Subtotal - Health Care Policy	0	0	2009-10 for a total of 5.5 percent since FY 2008-09.	2,215,134,990	959,912,786
<b>Public Safety</b>					
Community Corrections Programs	0	0	No change requested. No reduction has been proposed or applied since FY 2008-09. (Provider per-diem is \$37.74 compared to \$37.72 in FY 2001-02.)	54,786,680	53,789,705
<b>Total :</b>	<b>\$0</b>	<b>\$0</b>		<b>\$3,347,260,784</b>	<b>\$1,629,657,522</b>

## FY 2011-12 Community Provider Rate Setting

Rate/Program Area	GF Impact of Each 0.5% Increase or Decrease in Base - JBC Staff Calculation						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
<b>Corrections</b>							
Jail Backlog	\$40,748	\$81,497	\$122,245	\$162,994	203,742	\$244,491	\$285,239
Pre-release Prison	64,925	129,851	194,776	259,702	324,627	389,552	454,478
Community Corrections Programs	60,739	121,477	182,216	242,955	303,693	364,432	425,171
In-State Private Prisons	263,456	526,911	790,367	1,053,823	1,317,278	1,580,734	1,844,189
Out-of-State Private Prisons	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - Corrections	429,868	859,736	1,289,604	1,719,473	2,149,341	2,579,209	3,009,077
<b>Human Services</b>							
<b>Social Service Programs:</b>							
County Administration	99,117	198,234	297,351	396,468	495,585	594,701	693,818
Child Welfare	987,204	1,974,408	2,961,612	3,948,817	4,936,021	5,923,225	6,910,429
Child Care	73,021	146,042	219,063	292,084	365,106	438,127	511,148
Mental Health and Alcohol and Drug Abuse Svcs.	276,675	553,349	830,024	1,106,698	1,383,373	1,660,048	1,936,722
Developmental Disabilities	926,973	1,853,946	2,780,918	3,707,891	4,634,864	5,561,837	6,488,810
Vocational Rehab., Independent Living, Commis. on Deaf	7,288	14,576	21,864	29,152	36,440	43,728	51,016
Youth Corrections	<u>279,629</u>	<u>559,259</u>	<u>838,888</u>	<u>1,118,517</u>	<u>1,398,147</u>	<u>1,677,776</u>	<u>1,957,406</u>
Subtotal - Human Services	2,649,907	5,299,814	7,949,721	10,599,628	13,249,535	15,899,442	18,549,349
<b>Health Care Policy and Financing</b>							
Acute Care Providers	3,289,918	6,579,837	9,869,755	13,159,673	16,449,591	19,739,510	23,029,428
Community LTC Providers (HCBS Waivers)	665,958	1,331,916	1,997,875	2,663,833	3,329,791	3,995,749	4,661,707
Long Term Care (PACE)	202,676	405,352	608,027	810,703	1,013,379	1,216,055	1,418,731
Service Management	79,498	158,996	238,494	317,992	397,490	476,988	556,486
Mental Health Services*	<u>561,514</u>	<u>1,123,027</u>	<u>1,684,541</u>	<u>2,246,055</u>	<u>2,807,569</u>	<u>3,369,082</u>	<u>3,930,596</u>
Subtotal - Health Care Policy	4,799,564	9,599,128	14,398,692	19,198,256	23,997,820	28,797,384	33,596,948
<b>Public Safety</b>							
Community Corrections Programs	268,949	537,897	806,846	1,075,794	1,344,743	1,613,691	1,882,640
<b>Total :</b>	<b>\$8,148,288</b>	<b>\$16,296,575</b>	<b>\$24,444,863</b>	<b>\$32,593,150</b>	<b>\$40,741,438</b>	<b>\$48,889,726</b>	<b>\$57,038,013</b>

**FY 2011-12 Community Provider Rate Setting**

Rate/Program Area	GF Impact of Each 0.5% Increase or Decrease in Base -	
	4.5%	5.0%
Corrections		
Jail Backlog	\$366,736	\$407,485
Pre-release Prison	584,329	649,254
Community Corrections Programs	546,648	607,387
In-State Private Prisons	2,371,101	2,634,556
Out-of-State Private Prisons	<u>0</u>	<u>0</u>
Subtotal - Corrections	3,868,813	4,298,682
Human Services		
Social Service Programs:		
County Administration	892,052	991,169
Child Welfare	8,884,837	9,872,042
Child Care	657,190	730,211
Mental Health and Alcohol and Drug Abuse Svcs.	2,490,072	2,766,746
Developmental Disabilities	8,342,755	9,269,728
Vocational Rehab., Independent Living, Commis. on Deaf	65,592	72,880
Youth Corrections	<u>2,516,664</u>	<u>2,796,294</u>
Subtotal - Human Services	23,849,163	26,499,070
Health Care Policy and Financing		
Acute Care Providers	29,609,265	32,899,183
Community LTC Providers (HCBS Waivers)	5,993,624	6,659,582
Long Term Care (PACE)	1,824,082	2,026,758
Service Management	715,482	794,980
Mental Health Services*	<u>5,053,623</u>	<u>5,615,137</u>
Subtotal - Health Care Policy	43,196,075	47,995,639
Public Safety		
Community Corrections Programs	2,420,537	2,689,485
<b>Total :</b>	<b>\$73,334,588</b>	<b>\$81,482,876</b>