

Issue Brief – Inflationary Increases for Operating Expenditures for Local & Private Providers

DEPARTMENT OF HUMAN SERVICES

NUMBERDHS-08-03

INFLATIONARY INCREASES FOR OPERATING EXPENDITURES FOR LOCAL AND PRIVATE PROVIDERS

The Department of Human Services (DHS) is requesting \$1,950,700 with \$1,046,200 in General Funds, \$176,900 in federal funds, \$656,800 in federal Medicaid funds and \$25,800 in Transfers from Other Agencies for private and local providers inflationary increases in operating expenditures for FY 2008.

OBJECTIVE

DHS has five divisions that contract with private and local providers to provide services. One of the divisions is the Division of Juvenile Justice Services (DJJS). While DJJS is part of the Department of Human Services, its budget is reviewed in the Executive Offices and Criminal Justice Appropriations Subcommittee; therefore, it will not be part of this funding request.

DISCUSSION AND ANALYSIS

Local Providers

Two divisions within DHS, the Division of Substance Abuse and Mental Health (DSAMH) and the Division of Aging and Adult Services (DAAS) contract with local providers for services.

DSAMH: Both mental health and substance abuse services are delivered either directly by the local authorities (counties) or through contracts with private providers (such as Valley Mental Health in Salt Lake County). Section 17-43 of the UCA requires counties to provide a minimum scope and level of service, and a minimum of a 20 percent county match. Local authorities set priorities to meet local needs but must submit an annual plan describing services they will provide.

DAAS: The division enters into contracts with local Area Agencies on Aging (AAAs) for delivery of services for the aging population of Utah. In Utah, there are twelve AAAs (local government units) under contract with DAAS. Five counties are separate service providers (Salt Lake, Davis, Tooele, San Juan and Uintah). One provider is a cooperative venture between Weber and Morgan Counties. The other six providers are associations of county governments:

Mountainland (Utah, Summit, Wasatch), Five County Assoc. (Kane, Iron, Washington, Garfield, Beaver), Six County Association (Juab, Millard, Sevier, Wayne, Piute, Sanpete), Southeast Association (Carbon, Emery, Grand), Uintah Basin (Daggett, Duchesne), Bear River Association (Cache, Box Elder, Rich)

The AAAs may enter into a contract to provide services after establishing a plan to provide services based on standards set by the Board of Aging and Adult Services. Under section 62A-3-105 of the UCA require a 15 percent match of service dollars and a 25 percent match of administrative dollars for funds provided by DAAS for contractual services.

Private Providers

Two divisions, the Division of Services for People with Disabilities and the Division of Child and Family Services contract with private providers for services.

DSPD: The Division has divided the state into three regions for service delivery. The regions contract for services with private providers and oversee and evaluate the quality of services delivered.

DCFS: The Division contracts with private providers for Out of Home Care services. This program includes care and maintenance costs such as room and board, personal care, clothing, and allowance. DCFS oversees and evaluates the quality of services delivered.

Contract Rates

The contract rates are based on maximum allowable rates (MARs). MARs have been established for most service codes but not all. The MAR rates are adjusted annually based on the U.S. Department of Labor Statistics Consumer Price Index. There are four methodologies used to determine the MARs for a new service contract:

- 1) Existing Market Survey determines the actual cost of existing service providers;
- 2) Community Price Survey evaluates existing service providers for the prevailing market price for the services;
- 3) Comparative Analysis is used when similar services exist in another agency such as the Department of Health; and
- 4) Component Cost Analysis determines the various costs associated with the services provided.

The actual amount paid for contractual services is generally below the MAR rates. Most of the contract payments are generated from the USSDS data base, however a small amount are processed in FINET. There are currently about 423 established contractual rates in the USSDS (an in-house data base). The actual contractual payments are based on budgetary constraints within the divisions. Many of the increases in contract rates are directly linked to Legislative appropriations for the Cost of Living Adjustments (COLAs) for service providers. Typically, the COLA increases have been based on the salary component of the rate. The overhead portion of the contracts, such as liability insurance, energy costs, and rent have not been included in the calculation for Legislative appropriations. The MAR has steadily increased while the actual contractual rates have increased at a minimal rate, increasing the gap between the MAR and contract rates.

Historical Funding of Private and Local Providers

The Legislature historically funds a cost of living increase (COLA) for private and local providers based on salaries. In the 2006 General Session, the Legislature provides a 2.5 percent COLA for local and private providers of \$4,169,400 with \$2,159,600 in General Funds, \$330,500 in federal funds and \$1,679,300 in federal Medicaid funds.

Inflationary Increases in Operating Expenses

According to the private and local providers, operating expenses such as rent, fuel, utilities, worker's compensation, health insurance, background checks, and liability insurance have increased while the contract rates have only increased to cover salaries. The contractors feel if contract rates are not increased to cover operating expenses, they will be forced to reduce direct care wages which may result in a negative impact on client care. Some have indicated that they simply will not renew their contract. The contractors are requesting a COLA on operating expenses of \$1,950,700 for FY 2008. The following table shows the detail of the request:

| Department of Human Services FY 2008 Request for Operating Expenses COLA for Local and Private Providers | | | | | | | |
|--|---------------------------------------|--------------------|------------------|------------------|-----------------|------------|--------------------|
| Division | Program | General Fund | Federal Funds | Medicaid Funds | Other | Total | |
| Substance Abuse and Mental Health | Local Substance Abuse Services | \$58,800 | \$0 | \$0 | \$0 | \$0 | \$58,800 |
| Substance Abuse and Mental Health | Mental Health Center | \$146,200 | \$0 | \$0 | \$0 | \$0 | \$146,200 |
| Services for People with Disabilities | MR/RC Waiver Services | \$214,700 | \$0 | \$508,100 | \$0 | \$0 | \$722,800 |
| Services for People with Disabilities | Brain Injury Waiver Services | \$4,900 | \$0 | \$11,600 | \$0 | \$0 | \$16,500 |
| Services for People with Disabilities | Physical Disabilities Waiver Services | \$3,300 | \$0 | \$7,800 | \$0 | \$0 | \$11,100 |
| Services for People with Disabilities | Non-waiver Services | \$17,600 | \$0 | \$0 | \$0 | \$0 | \$17,600 |
| Child and Family Services | Out of Home Services | \$508,000 | \$176,900 | \$129,300 | \$25,800 | \$0 | \$840,000 |
| Aging and Adult Services | Aging Services | \$92,700 | \$0 | \$0 | \$0 | \$0 | \$92,700 |
| Total | | \$1,046,200 | \$176,900 | \$656,800 | \$25,800 | \$0 | \$1,905,700 |

RECOMMENDATION

It is the recommendation of the Analyst that this request not be funded for FY 2008. In addition, it is the recommendation of the Analyst that the following intent language be adopted for FY 2008, *It is the intent of the Legislature that the Office of the Legislative Fiscal Analyst conduct a study of contract rates of local and private providers and submit a written report to be presented to the Health and Human Services Appropriations Subcommittee by the 2008 General Session.*

