Steve Watkins, CEO LifeScape Testimony JCA DHS Budget Hearing 2/7/25

Key to Historical Funding Graphs:

1) In F25 the legislature approved 98% funding of methodology. This resulted in a deficit of \$5.4M in funding CSPs obligations that are subcontracted by providers for the state. Neither the state, the feds, nor the accrediting and oversight groups reduced their requirements, policies, rules or expectations of providers. Our accountability to 100% compliance remained at 100% while funding declined to 98%.
2) Methodology has been updated for F26 indicating an increase of \$16.2M or 6.1% increase is required to fund 100% of the obligations of the providers. \$10.5M / (4% of the 6.1%) of that amount is due to inflationary increases applied to the methodology (4.3% increase in South Dakota wages and 3.8% South Dakota CPI) for the year F26. The remainder, \$5.7M / (2.1% of the 6.1%) of the increase was due to the underfunding that occurred the prior year when funding was set at 98% of methodology.
3) 35% of the total funding ask this year (F26) was driven by the prior year underfunding. The decision to underfund the prior year had a significant impact on the amount of funding needed to achieve 100% in the current year.
4) The Governor has suggested a 1.25% increase for providers. That would result in a \$3.3M increase, resulting in a \$12.9M deficit to 100% methodology. That would result in a funding ratio of 95% of methodology. Meanwhile, CMS, OSHA, DHS and other oversight agencies remain at 100% compliance of their expectations. This forces providers to make decisions that will negatively impact compliance, quality, quantity, and ultimately safety of services provided as a subcontractor of the State's obligations.
5) If we assume the 1.25% increase this year, and assume a 3% CPI as we looked toward F27 a year from now, legislators will face an ask of \$21M to achieve 100% methodology. 61% of this ask (\$12.9M) will be the result of prior years decisions to not fund at 100% methodology. The compounding effect of not funding at 100% becomes very large, very quickly. This forces future legislators to have to grapple with large solves which seem insurmountable.
6) A graph I presented to this committee in 2019 reflects this exact situation. Methodology hadn't been updated since 2001. Wage inflation had increased at an annual rate of 4.6%; while legislators chose to fund at 2.6% discretionary inflation. The resulting compounding deficit to providers approached \$63M in total funds to bring the system back to 100%. It required multiple years of funding beyond inflationary amounts to achieve 100% two years ago. Meanwhile, providers

remained tasked with 100% compliance from all oversight and accreditation organizations while fulfilling the obligations of the State. Provider quality, quantity, and safety were all negatively impacted in those years.

I fully acknowledge the budgeting challenges this committee faces this year. I would only ask that in prioritizing a budget, please consider the compounding impact of deficit funding has on the system, providers, and future legislators.

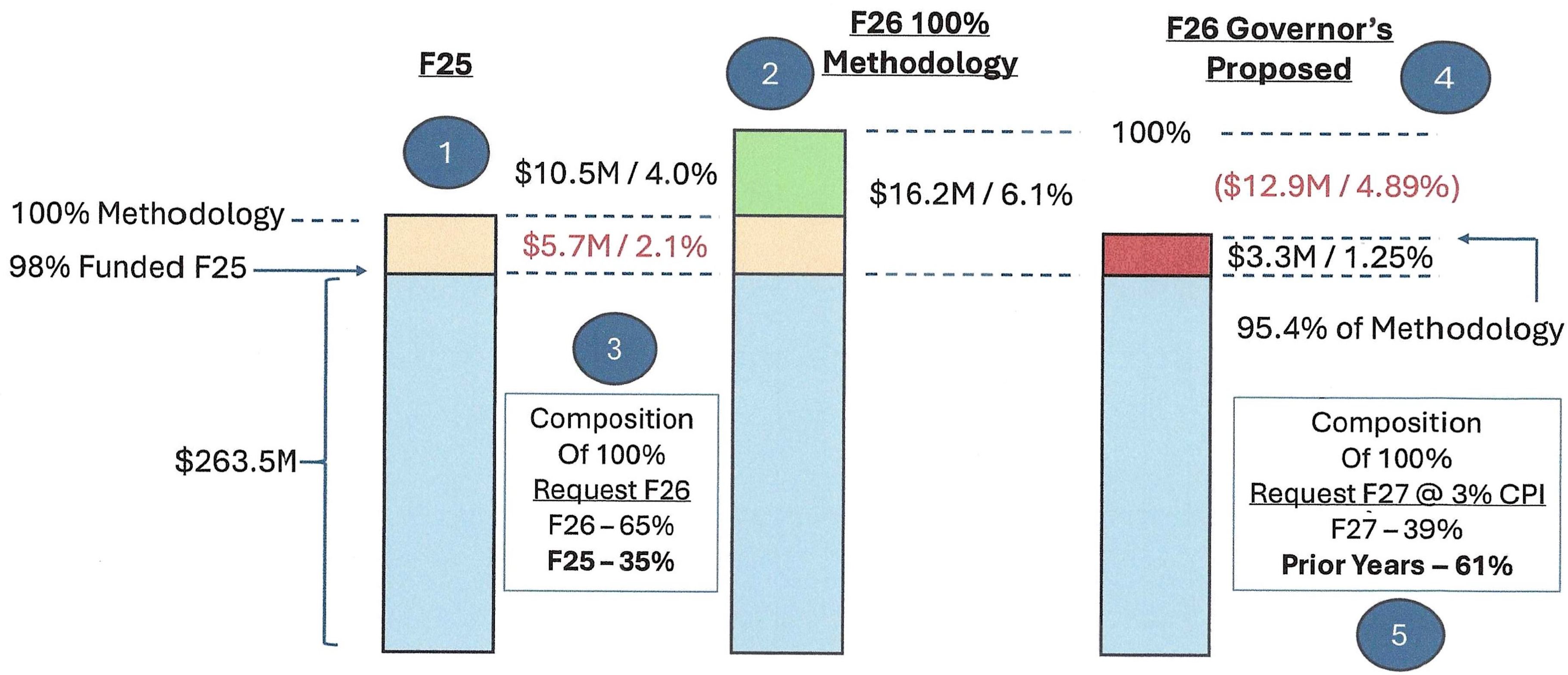
Steve Watkins, CEO

LifeScape

# CSP / CHOICES Reimbursement Review (Total Funds*)

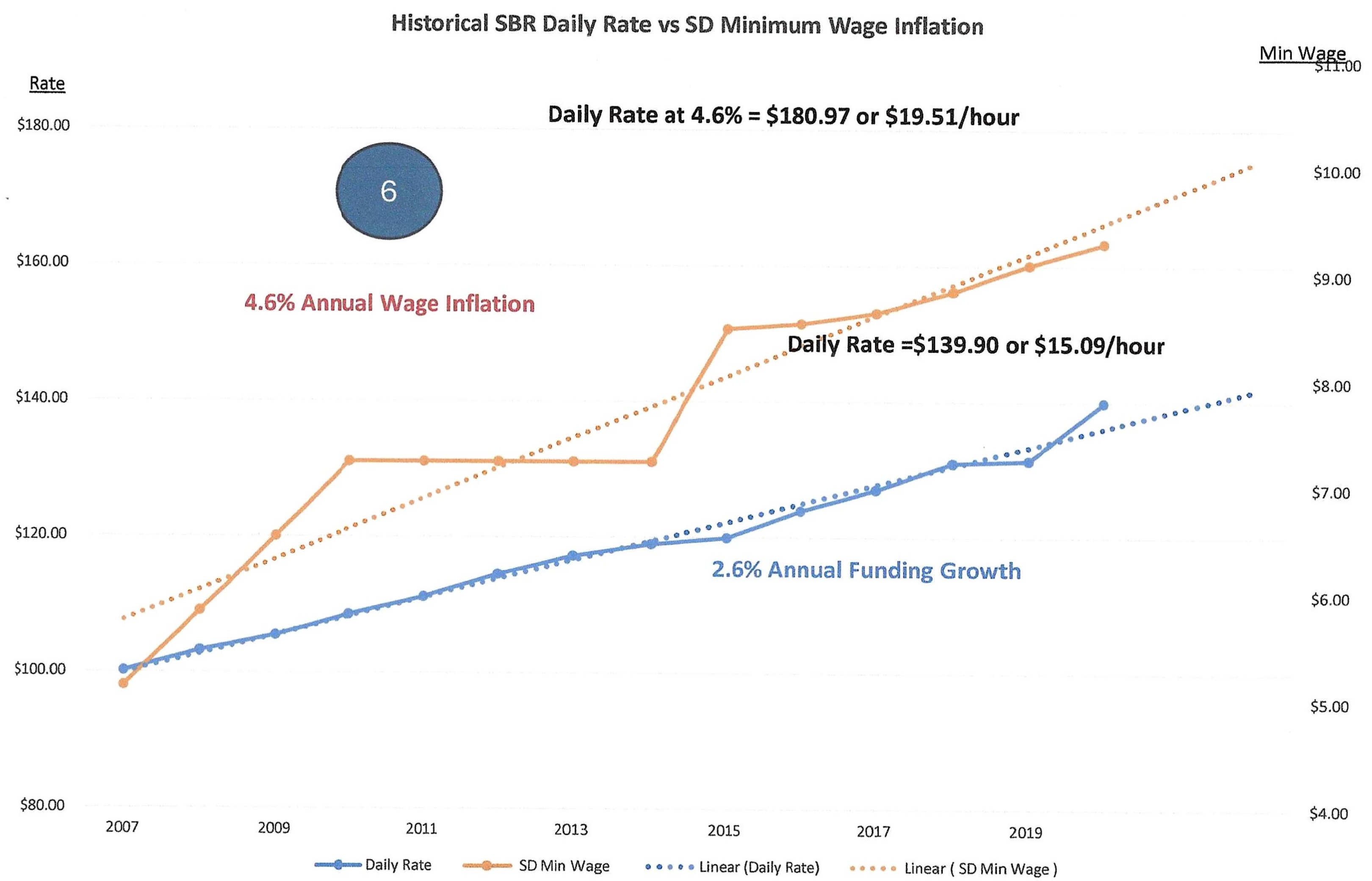
Methodology Established: 12/30/21

Methodology Updated According to JCA LOI: 12/16/24




* All funds are total funds including FMAP and state general funds

**Total state general funds requested to achieve 100% methodology $7.8 million**


Historical SBR Daily Rate vs SD Minimum Wage Inflation
Rate
Min Wage
$180.00
$160.00
$140.00
$120.00
$100.00
$80.00
$11.00
$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
Daily Rate at 4.6% = $180.97 or $19.51/hour
6
4.6% Annual Wage Inflation
Daily Rate =$139.90 or $15.09/hour
2.6% Annual Funding Growth
2007
2009
2011
2013
2015
2017
2019
Daily Rate
SD Min Wage
Linear (Daily Rate)
Linear ( SD Min Wage )