

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Members of the Joint Budget Committee
FROM Justin Brakke and Emily Hansen, JBC Staff
DATE March 1, 2024
SUBJECT Clinical Staff Incentives for Department of Corrections and
Department of Human Services

During the supplemental budget process, the JBC discussed a Department of Corrections (DOC) request for funding to support hiring incentives for clinical staff. The JBC also discussed requests from both the DOC and the Department of Human Services (DHS) for additional funding for clinical workers supplied by contract agencies. The DOC expects to spend about \$32.0 million on contract agency staff in FY 2023-24 and the DHS expects to spend about \$55.4 million.

The JBC approved the DOC and DHS supplemental funding requests for contract agency staff. JBC staff recommended that the JBC deny the DOC supplemental request for hiring incentives and the JBC approved staff's recommendation. JBC staff wrote:

“Staff recommends denial of the [DOC’s] supplemental request. The Department of Human Services (DHS) is currently providing \$14,000 incentive payments to nurses, which is expected to end in March 2024. This supplemental request would start incentive payments for DOC staff just as the DHS payments are ending. JBC staff are working on a different and more consistent approach to incentive payments for clinical staff at both the DOC and the DHS, starting in FY 2024-25...

However, JBC staff need more time to coordinate across agencies and ensure that the Committee understands the full cost of this approach...Focusing on FY 2024-25 also allows JBC staff to incorporate the JBC’s total compensation decisions in their incentive calculations.”

This memo is the follow-up to that discussion. It is structured around the DOC’s FY 2024-25 budget request but provides recommendations for both the DOC and the DHS.

→ DOC BA3 STAFF INCENTIVES AND BONUSES

REQUEST: The Department of Corrections (DOC) requests a one-time increase of \$3,466,004 General Fund in FY 2024-25. These funds would support \$14,000 hiring incentives for certain job classes with high vacancy rates in clinical healthcare and the Sex Offender Treatment and Monitoring Program (SOTMP).¹ The following table shows the number of job vacancies the DOC is aiming to fill and the cost per job classification.

¹ The DOC originally split the request across both FY 2023-24 and FY 2024-25. The FY 2023-24 request was for \$482,826 General Fund and the FY 2024-25 request was for \$2,994,077 General Fund. The difference between the two years stems from the number of positions the DOC proposed to hire in FY 2023-24 and a payment timeline that spanned both fiscal years. The FY 2023-24 supplemental request was denied, but JBC staff assumes the DOC still wants to hire the same total number of positions that it had originally requested across the two fiscal years.

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TABLE 1~FY 2024-25 DOC BA3 PROPOSED INCENTIVES AND JOB CLASSIFICATIONS

JOB CLASS	SOTMP HIRES	CLINICAL HIRES	TOTAL HIRES	HIRING INCENTIVE	TOTAL
Health Professionals I & II	14	70	84	\$14,000	\$1,176,000
Nurses I & III	0	65	65	14,000	910,000
Social Worker III	15	15	30	14,000	420,000
Dentist I	0	10	10	14,000	140,000
Physician II	0	8	8	14,000	112,000
Psychologist I	2	2	4	14,000	56,000
Subtotal	31	170	201		\$2,814,000
POTS					\$652,004
<i>PERA (11.57% of salary)</i>					<i>\$325,580</i>
<i>Medicare (1.45% of salary)</i>					<i>\$40,803</i>
<i>Amortization Equalization Disbursement (AED, 5.0% of salary)</i>					<i>\$140,700</i>
<i>Supplemental AED (5.0% of salary)</i>					<i>\$140,700</i>
<i>Short-term Disability (0.15% of salary)</i>					<i>\$4,221</i>
Total FY 2024-25 Cost (Incentives + POTS)					\$3,466,004

The request proposes to pay out these incentives over a three-month period. The first half would be paid upon completion of the DOC Training Academy and the other half would be paid out after three months of employment.

SUMMARY OF RECOMMENDATIONS

JBC staff offers three prioritized options for the JBC's consideration. The following table summarizes the total cost of each option, possible offsets, and the total cost after applying the offsets. Staff recommends a new line item in the DOC and the DHS for clinical staff incentives and a Long Bill footnote indicating legislative intent with the appropriation.

TABLE 2~SUMMARY OF JBC STAFF RECOMMENDATIONS: DOC AND DHS CLINICAL STAFF INCENTIVES

	DOC	DHS	TOTAL
Total cost before offsets			
Rec. #1: \$25,000 incentives	\$6,312,464	\$3,300,480	\$9,612,944
Rec. #2: 75% benchmark (base salary)	11,745,948	25,648,849	37,394,797
Rec. #3: 75% of benchmark (base salary + benefits)	2,944,117	15,506,272	18,450,389
Potential Offsets			
Utilize 12.5 percent of contract service base funding	\$4,443,825	\$2,919,795	\$7,363,619
Exempt contract services from provider rate common policy request	888,764	565,411	1,454,175
Exempt incentive job classes from non-base building increase request (recommendations 2 & 3 only)	526,466	1,421,784	1,948,250
Total offsets to apply to recommendations	\$5,859,055	\$4,906,990	\$10,766,044
Total cost after offsets			
Rec. #1: \$25,000 incentives across-the-board	\$979,875	(\$184,726)	\$795,150
Rec. #2: 75% benchmark (base salary)	5,886,893	20,741,859	26,628,753
Rec. #3: 75% of benchmark (base salary + benefits)	(2,914,937)	10,599,282	7,684,344

RECOMMENDATION #1 - \$25,000 HIRING INCENTIVES: Staff recommends an increase of \$6,312,464 General Fund for the DOC and \$3,300,480 General Fund for the Department of Human Services for a total increase of \$9,612,944 General Fund.

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This recommendation replicates the DOC request but applies a \$25,000 incentive in the calculation and includes an equal incentive for similar high vacancy job classes at the DHS. The JBC may choose a higher or lower incentive figure and JBC staff can calculate the change accordingly. The following table shows how the recommendation was calculated. Staff excluded physicians, dentists, and psychologists from all recommendations due to the highly specialized nature of those positions and the fact that contract spending for those positions is much lower than the more commonly-used nurses and other lower level clinical positions.

TABLE 3~RECOMMENDATION #1: \$25,000 HIRING INCENTIVES (DOC)			
JOB CLASS	TOTAL HIRES	HIRING INCENTIVE	TOTAL
Health Professionals I & II	84	\$25,000	\$2,100,000
Nurses I & III	65	\$25,000	1,625,000
Social Worker III	30	\$25,000	750,000
Licensed Practical Nurse I & III	15	\$25,000	375,000
Mid-Level Provider (Physician's Assistant/Nurse Practitioner)	11	\$25,000	275,000
Subtotal	205	\$25,000	\$5,125,000
POTS			\$1,187,464
<i>PERA (11.57% of salary)</i>			<i>\$592,963</i>
<i>Medicare (1.45% of salary)</i>			<i>\$74,313</i>
<i>Amortization Equalization Disbursement (AED, 5.0% of salary)</i>			<i>\$256,250</i>
<i>Supplemental AED (5.0% of salary)</i>			<i>\$256,250</i>
<i>Short-term Disability (0.15% of salary)</i>			<i>\$7,688</i>
Total FY 2024-25 Cost (Incentives + POTS)			\$6,312,464

TABLE 4~\$25,000 HIRING INCENTIVES (DHS)			
JOB CLASS	TOTAL HIRES	HIRING INCENTIVE	TOTAL
Health Tech I & III	26	\$25,000	\$655,000
Nurses I & III	63	\$25,000	1,577,500
Social Worker III	9	\$25,000	227,500
Licensed Practical Nurse I & III	-	\$25,000	0
Mid-Level Provider (Physician's Assistant/Nurse Practitioner)	-	\$25,000	0
Subtotal	98		\$2,460,000
POTS			\$840,480
<i>PERA (11.57% of salary)</i>			<i>\$284,622</i>
<i>Medicare (1.45% of salary)</i>			<i>\$35,670</i>
<i>Amortization Equalization Disbursement (AED, 5.0% of salary)</i>			<i>\$256,250</i>
<i>Supplemental AED (5.0% of salary)</i>			<i>\$256,250</i>
<i>Short-term Disability (0.15% of salary)</i>			<i>\$7,688</i>
Total FY 2024-25 Cost (Incentives + POTS)			\$3,300,480

Staff does not recommend incentives for Licensed Practical Nurses and Mid-Level Providers in the DHS as the Department reports a total of 3.0 vacant job positions for those classifications. However, the Department reported spending \$5.0 million on LPN contract staff as part of their first prioritized request to maintain funding for contract staff, indicating a lack of certainty between both reported vacancies and contract spending.

RECOMMENDATION #2 - BRING STATE EMPLOYEE BASE COMPENSATION TO 75.0 PERCENT OF CONTRACT AGENCY RATES: Staff recommends an increase of \$11,745,948 General Fund for the

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DOC and \$25,648,849 General Fund for the Department of Human Services for a total increase of \$37,394,797 General Fund.

This recommendation provides funding to bring 90.0 percent of the selected job classes up to 75.0 percent of contract agency rates. The following table shows how the recommendation was calculated. JBC staff found that it was very difficult to calculate a defensible contract agency benchmark.

TABLE 5~RECOMMENDATION #2: DOC INCENTIVES TO REACH 75% OF CONTRACT AGENCY RATES, BASE SALARY

DOC MEDICAL SERVICES JOB CLASSIFICATIONS	AVERAGE BASE HOURLY RATE (FY 24-25 RATE)	WEIGHTED-AVERAGE CONTRACT HOURLY RATE	DIFFERENCE BETWEEN BASE HOURLY RATE AND 75% OF CONTRACT RATE	TOTAL # OF FTE IN JOB CLASS (ASSUME 10% OF JOBS VACANT)	TOTAL ANNUAL APPROPRIATION NEEDED TO GET TO 75% (PRE-BENEFITS)	ROUGH ESTIMATE FY 23-24 CONTRACT SPENDING
Nurse I	\$45.95	\$81.89	\$15.47	159.0	\$5,116,238	\$22,659,507
Licensed Practical Nurse I & III	25.99	60.91	19.69	15.0*	\$614,328	
Mid-Level Provider (Physician's Assistant/Nurse Practitioner)	54.25	100.56	21.17	38.0	\$1,673,277	3,292,209
Subtotal				212.0	\$7,403,843	\$25,951,716
DOC MENTAL HEALTH, DRUG & ALCOHOL, AND SEX OFFENDER TREATMENT JOB CLASSIFICATIONS						
Social Worker III	39.52	63.47	8.08	71.0	\$1,193,254	2,207,204
Health Professional II	34.78	55.73	7.02	114.0	\$1,664,582	1,460,090
Subtotal				185.0	\$2,857,837	3,667,293
Total				397.0	\$10,261,680	\$29,619,009
POTS					\$1,484,268	
<i>PERA (11.57% of salary)</i>					<i>\$1,187,276</i>	
<i>Medicare (1.45% of salary)</i>					<i>\$148,794</i>	
<i>Amortization Equalization Disbursement (AED, 5.0% of salary)</i>					<i>\$73,004</i>	
<i>Supplemental AED (5.0% of salary)</i>					<i>\$73,004</i>	
<i>Short-term Disability (0.15% of salary)</i>					<i>\$2,190</i>	
Total DOC FY 2024-25 Cost (Incentives + POTS)					\$11,745,948	

* The number of Licensed Nurse Practitioners was estimated by JBC staff. This is a new position for the DOC starting in FY 2023-24.

TABLE 6~ RECOMMENDATION #2: DHS INCENTIVES TO REACH 75% OF CONTRACT AGENCY RATES, BASE SALARY

	AVERAGE BASE HOURLY RATE (FY 24-25 RATE)	AVERAGE CONTRACT HOURLY RATE	DIFFERENCE BETWEEN BASE HOURLY RATE AND 75% OF CONTRACT RATE	TOTAL # OF FTE IN JOB CLASS (ASSUME 10% OF JOBS VACANT)	TOTAL APPROPRIATION NEEDED TO GET TO 75% (PRE-BENEFITS)	ROUGH ESTIMATE FY 23-24 CONTRACT SPENDING
Nurse I & II	\$50.46	\$109.05	31.33	296.1	\$19,295,771	\$33,388,493
Licensed Practical Nurse I & III	26.98	60.91	18.70	7.2	\$280,051	4,976,197
Mid-Level Provider (Physician's Assistant/Nurse Practitioner)	58.74	100.56	16.68	22.5	\$780,624	-
Subtotal				325.8	\$20,356,446	\$38,364,690
Social Worker III	\$43.75	\$63.47	\$3.85	26.1	\$209,009	\$4,118,400
Health Care Tech I & III	24.23	61.95	22.23	43.2	\$1,997,499	12,892,043
Subtotal				69.3	\$2,206,508	\$17,010,443

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TABLE 6~ RECOMMENDATION #2: DHS INCENTIVES TO REACH 75% OF CONTRACT AGENCY RATES, BASE SALARY

	AVERAGE BASE HOURLY RATE (FY 24-25 RATE)	AVERAGE CONTRACT HOURLY RATE	DIFFERENCE BETWEEN BASE HOURLY RATE AND 75% OF CONTRACT RATE	TOTAL # OF FTE IN JOB CLASS (ASSUME 10% OF JOBS VACANT)	TOTAL APPROPRIATION NEEDED TO GET TO 75% (PRE- BENEFITS)	ROUGH ESTIMATE FY 23-24 CONTRACT SPENDING
Total				395.1	22,562,954	55,375,133
POTS					\$3,085,895	
<i>PERA (11.57% of salary)</i>					<i>\$2,610,534</i>	
<i>Medicare (1.45% of salary)</i>					<i>\$327,163</i>	
<i>Amortization Equalization Disbursement (AED, 5.0% of salary)</i>					<i>\$73,004</i>	
<i>Supplemental AED (5.0% of salary)</i>					<i>\$73,004</i>	
<i>Short-term Disability (0.15% of salary)</i>					<i>\$2,190</i>	
Total DHS FY 2024-25 Cost (Incentives + POTS)					\$25,648,849	

RECOMMENDATION #3 BRING STATE EMPLOYEE BASE COMPENSATION PLUS BENEFITS TO 75.0 PERCENT OF CONTRACT AGENCY RATES: Staff recommends an increase of \$2,944,117 General Fund for the DOC and \$15,506,272 General Fund for the Department of Human Services for a total increase of \$18,450,389. This recommendation provides funding to bring 90.0 percent of the selected job classes up to 75.0 percent of contract agency rates after accounting for PERA and insurance benefits.

The following table shows how the recommendation was calculated. JBC staff found that it was very difficult to determine the right contract agency benchmark to use. JBC staff also found that some job classifications are already at or near the 75.0 percent benchmark after accounting for benefits. This suggests that: (A) Prospective employees are not considering benefits when making decisions about where to work, and/or (B) 75.0 percent of the benchmark is not high enough to influence their decision making process. Staff consequently ranked this as the third option and included it mainly for awareness.

TABLE 7~RECOMMENDATION #3: DOC INCENTIVES TO REACH 75% OF CONTRACT AGENCY RATES, BASE SALARY
+ BENEFITS

DOC MEDICAL SERVICES JOB CLASSIFICATIONS	AVERAGE HOURLY RATE AFTER BENEFITS (FY 24-25 RATE)	WEIGHTED- AVERAGE CONTRACT HOURLY RATE	DIFFERENCE BETWEEN BASE HOURLY RATE AND 75% OF CONTRACT RATE	# OF FTE IN JOB CLASS (ASSUME 10% OF JOBS VACANT)	TOTAL APPROPRIATION NEEDED TO GET TO 75% (POST-BENEFITS)	ROUGH ESTIMATE FY 23-24 CONTRACT SPENDING
Nurse I	\$57.06	\$81.89	\$4.36	159.0	\$1,441,939	\$22,659,507
Licensed Practical Nurse I & III	34.52	60.91	11.16	15.0	\$348,192	
Mid-Level Provider (Physician's Assistant/Nurse Practitioner)	66.77	100.56	8.65	38.0	\$683,696	3,292,209
Subtotal				212.0	\$2,473,827	\$25,951,716
DOC MENTAL HEALTH, DRUG & ALCOHOL, AND SEX OFFENDER TREATMENT JOB CLASSIFICATIONS						
Social Worker III	\$49.62	\$63.47	(\$2.02)	71.0	n/a	\$2,207,204
Health Professional II	44.33	55.73	(2.53)	114.0	n/a	1,460,090
Subtotal				185.0	\$0	3,667,293
Total				397.0	\$2,473,827	\$29,619,009

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**TABLE 7~RECOMMENDATION #3: DOC INCENTIVES TO REACH 75% OF CONTRACT AGENCY RATES, BASE SALARY
+ BENEFITS**

DOC MEDICAL SERVICES JOB CLASSIFICATIONS	AVERAGE HOURLY RATE AFTER BENEFITS (FY 24-25 RATE)	WEIGHTED-AVERAGE CONTRACT HOURLY RATE	DIFFERENCE BETWEEN BASE HOURLY RATE AND 75% OF CONTRACT RATE	# OF FTE IN JOB CLASS (ASSUME 10% OF JOBS VACANT)	TOTAL APPROPRIATION NEEDED TO GET TO 75% (POST-BENEFITS)	ROUGH ESTIMATE FY 23-24 CONTRACT SPENDING
POTS					\$470,290	
<i>PERA (11.57% of salary)</i>					\$286,222	
<i>Medicare (1.45% of salary)</i>					\$35,870	
<i>Amortization Equalization Disbursement (AED, 5.0% of salary)</i>					\$73,004	
<i>Supplemental AED (5.0% of salary)</i>					\$73,004	
<i>Short-term Disability (0.15% of salary)</i>					\$2,190	
Total DOC FY 2024-25 Cost (Incentives + POTS)					\$2,944,117	

**TABLE 8~RECOMMENDATION #3: DHS INCENTIVES TO REACH 75% OF CONTRACT AGENCY RATES, BASE SALARY
+ BENEFITS**

	AVERAGE HOURLY RATE AFTER BENEFITS (FY 24-25 RATE)	AVERAGE CONTRACT HOURLY RATE	DIFFERENCE BETWEEN BASE HOURLY RATE AND 75% OF CONTRACT RATE	# OF FTE IN JOB CLASS (ASSUME 10% OF JOBS VACANT)	TOTAL APPROPRIATION NEEDED TO GET TO 75% (POST-BENEFITS)	ROUGH ESTIMATE FY 23-24 CONTRACT SPENDING
Nurse I & II	\$60.02	\$109.05	\$21.77	296.1	\$13,407,882	\$33,388,493
Licensed Practical Nurse I & III	35.63	60.91	10.05	7.2	\$150,509	4,976,197
Mid-Level Provider (Physician's Assistant/Nurse Practitioner)	74.77	100.56	0.65	22.5	\$30,420	n/a
Subtotal				325.8	\$13,588,811	\$38,364,690
Social Worker III	\$57.99	\$63.47	(10.39)	26.1	n/a	\$4,118,400
Health Technician I & III	32.63	55.73	9.17	43.2	n/a	12,892,043
Subtotal				69.3	\$0	\$17,010,443
Total				395.1	\$13,588,811	\$55,375,133
POTS					\$1,917,461	
<i>PERA (11.57% of salary)</i>					\$1,572,225	
<i>Medicare (1.45% of salary)</i>					\$197,038	
<i>Amortization Equalization Disbursement (AED, 5.0% of salary)</i>					\$73,004	
<i>Supplemental AED (5.0% of salary)</i>					\$73,004	
<i>Short-term Disability (0.15% of salary)</i>					\$2,190	
Total DHS FY 2024-25 Cost (Incentives + POTS)					\$15,506,272	

ANALYSIS:

THE PROBLEM

Both the DOC and the DHS have been using external contract agency staff to fill a service void caused by a lack of state employees in certain clinical job classifications. The following tables show the number of vacancies in certain job classifications for both the DOC and the DHS.

STAFFING VACANCIES FOR JOB CLASSIFICATIONS INCLUDED IN DOC BA3 STAFF INCENTIVES AND BONUSES

SUBPROGRAM	JOB CLASSIFICATION	TOTAL POSITIONS	VACANT POSITIONS	VACANCY RATE	POSITIONS REQUESTED TO FILL	% OF VACANT POSITIONS FILLED IF SUCCESSFUL
Medical Services	Nurse I	177	57	32.2%	65.0	99.5%
	Nurse III	32	9	28.1%		
	Physician II	16	8	50.0%	8.0	100.0%

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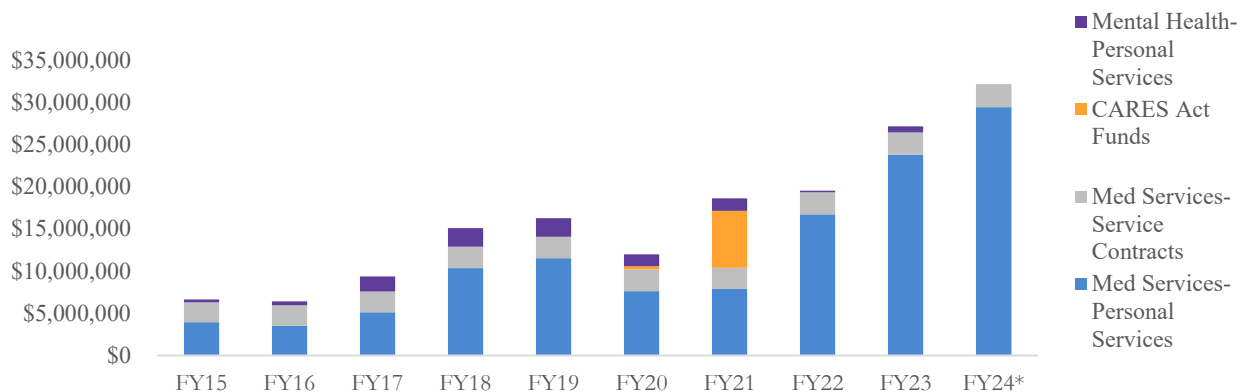
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STAFFING VACANCIES FOR JOB CLASSIFICATIONS INCLUDED IN DOC BA3 STAFF INCENTIVES AND BONUSES						
SUBPROGRAM	JOB CLASSIFICATION	TOTAL POSITIONS	VACANT POSITIONS	VACANCY RATE	POSITIONS REQUESTED TO FILL	% OF VACANT POSITIONS FILLED IF SUCCESSFUL
	Dentist I	17	7	41.2%	10.0	142.9%
Drug & Alcohol Treatment, Mental Health Treatment, Sex Offender Treatment	Health Professional I	30	13	43.3%	84.0	107.0%
	Health Professional II	127	60	47.2%		
	Social Worker III	79	50	63.3%	30.0	60.0%
	Psychologist I	9	5	55.6%	4.0	80.0%
Total All Selected Positions		487	209		201.0	

STAFFING VACANCIES FOR DHS			
CLASSIFICATION	TOTAL POSITIONS	VACANT POSITIONS	VACANCY RATE
Nurse I	231	105	45.5%
Nurse II	98	41	41.8%
LPN I	6	2	33.3%
LPN III	2	0	0.0%
Health Professional I	3	0	0.0%
Health Professional II	15	1	6.7%
Health Technician I	28	19	67.9%
Health Technician III	20	12	60.0%
Social Worker III	29	12	41.4%
Psychologist I	54	21	38.9%
Total	486	213	43.8%

Contract agency staff are much more expensive than state employees. This is costing the State tens of millions. These costs have grown substantially over the last two fiscal years, with registered nurse services being the primary driver. The following chart shows the increase in actual expenditures for contract agency staff in the DOC's Medical Services Subprogram and the Mental Health Subprogram over the last decade. In FY 2014-15, the Department spent about \$6.6 million for this purpose. In FY 2022-23, they spent about \$27.2 million. The Department is projecting that it will spend about \$32.2 million in FY 2023-24.

DOC expenditures for contract agency clinical staff mainly occur in the Personal Services line item in the **Medical Services Subprogram**.

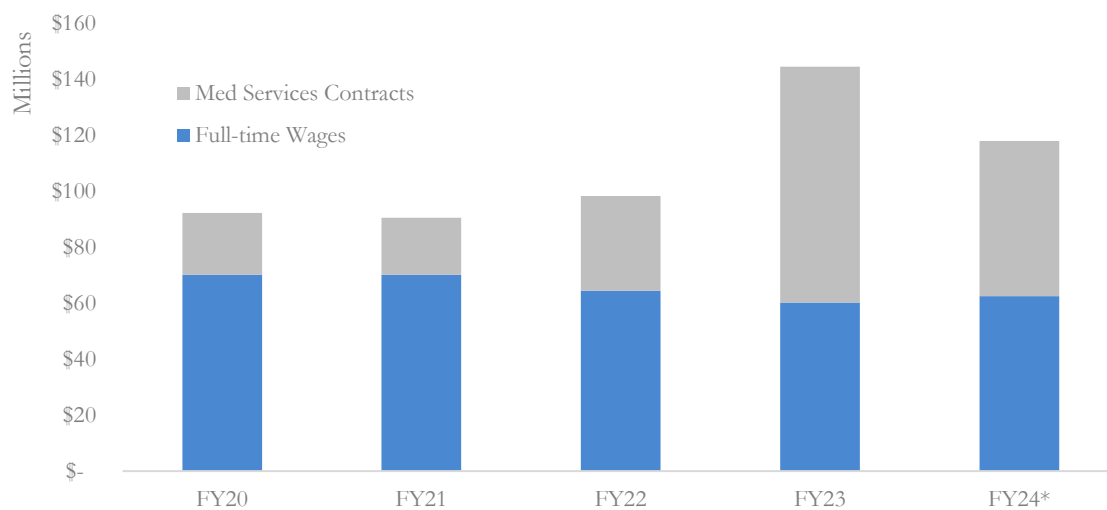


Source: DOC Schedule 14B, Object Code 1940 for spending from personal services (except for CARES funding), Object Code 2710 for Service Contracts.
*FY 2023-24 costs estimated by the DOC.

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The DHS has been paying much more than the DOC, largely due to a higher number of state nurse job vacancies. The Department assumes that contract costs for the state mental health hospitals will total \$55.4 million in FY 2023-24, and decrease over the next two fiscal years due to non-base building incentives included in the State pay plan. It is unclear to what extent contract staffing may be utilized at other DHS facilities, but the Department indicates that contract nurses at the Mental Health Hospital in Pueblo are the primary cost driver. Reliance on contract staff has dramatically increased since the COVID-19 pandemic, as provided in the chart below.

DHS reported expenditures for medical services contracts at the Mental Health Hospitals have increased while expenditures for full-time wages have decreased.



Source: DHS Schedule 14B except FY 2023-24, which is estimated based on information provided in the Department request.

DHS instituted \$14,000 hiring bonuses for nurses at the state hospitals in 2023 supported with ARPA funds. The Department indicates that bonuses began at \$1,000 and were increased to \$7,000 and eventually \$14,000. Bonuses were increased because no hiring improvements were realized until the \$14,000 level. However, the Department only experienced net hiring of 15 nurses while bonuses were instituted. A total of 40 nurses were hired between both hospitals, but 25 departed in the same timeframe. The Department also indicates that hiring bonuses were provided in two increments, first at hiring and second at nine months.

WHAT IS THE CAUSE OF THE PROBLEM? COMPENSATION AND OTHER FACTORS

At risk of oversimplification, JBC staff is aware of at least two general causes. First, compensation for contract agency staffing is significantly higher than compensation for state employees. For example, the FY 2024-25 entry level base hourly pay for a state Nurse I will be \$42.93 after accounting for a 3.0 percent across-the-board salary increase. Local contract agencies charge about twice as much per hour (\approx \$80/hour), with contracted traveling nurses costing about \$100 per hour or more.² It is JBC staff's

² It is JBC staff's understanding that contract agencies collect a portion of this hourly rate, with the rest going to the contract employee. This information is not provided to the State in a consistent manner (if at all). In other words, if a contract agency charges the State \$100.00 per hour for a traveling nurse, how much does that nurse actually earn per hour?

understanding that both the DOC and the DHS are more reliant on traveling contract nurses than local contract nurses.

Non-compensatory factors may also play a role in an individual's choice to work for a contract agency rather than the State. For example, contract agencies may offer more flexibility than the State in terms of the numbers of hours worked, location (e.g. work from home), and more determination over shifts (e.g. day versus night). There may be other non-compensatory factors that influence a person's decision to not work for the State.

RECOMMENDATIONS #1 AND #2: FLAT INCENTIVE VS. INCREASE BASE SALARY PERCENTAGE OF CONTRACT AGENCY RATES

During the recent supplemental process, JBC staff and the JBC discussed an alternative incentive approach. Staff proposed an approach where the State would provide incentive payments to bring state employee compensation to 75.0 percent or more of contract agency compensation. For example, if a contract agency employee makes \$150,000 annually, and if a state employee earns a base annual salary of \$75,000, an annual incentive of \$37,500 would bring the state employee to 75.0 percent of contract agency compensation. An annual incentive of \$52,500 would bring the state employee to 85.0 percent of contract agency compensation, and so on.

JBC staff proposed this approach for two main reasons. The first is the gap between contract agency compensation rates and state compensation rates. The DOC proposed \$14,000 incentives across multiple job classifications, but JBC staff found that getting those job classifications to 85.0 percent of contract agency rates would require incentives ranging between \$20,000 and \$177,000. The second reason is that, if successful, increasing the number of state employees by increasing compensation levels to anything less than 100.0 percent of contract agency rates would save the State money.

Unfortunately, JBC staff was unable to calculate a defensible contract agency benchmark for two reasons. Consequently, staff is no longer recommending the percentage-based approach as the primary option.

- 1 The first reason relates to the number of different contract rates billed to the State and how often the State is billed at a particular rate.** One vendor may charge a rate of \$81.00 per hour for registered nurses and another may charge \$110.00 for registered nurses. The simple mean hourly rate is \$95.50. However, the State may use the more expensive labor more often, or vice versa.

JBC staff therefore aimed to calculate a weighted-average contract agency rate. Specifically, JBC staff inquired about the number of hours billed at a given rate. Staff was informed by the DOC that, "The reporting does not break out the hours." The closest that JBC staff was able to get was a point-in-time estimate of the number of contract agency staff, by vendor and hourly rate, working in DOC facilities on February 20, 2024.

As discussed later in the analysis, a lack of information about the gross "take-home" hourly rate for contract agency personnel makes it virtually impossible to calculate targeted incentives for state employees as a percentage of contract agency compensation.

- 2 **The second reason pertains to a lack of information about actual compensation levels for contract agency staff.** Contract agency staff do not receive 100.0 percent of the rate charged to the State. Contract agencies collect a percentage of the full rate and a lesser amount is passed on to the employee. If the goal of a percentage-based model is to influence a prospective employee's decision making process, it would be helpful to know how much they actually get paid through a contract agency.

The DOC does not have this information. When asked, the DOC said, "Consistent with past requests, the vendors are unwilling to break out the billing for the take-home rate." The DHS provided anecdotal reports that contract agencies may collect up to 40.0 percent of the rate charged to the State.

JBC staff also heard that significantly increasing compensation for state employees could make the current problem worse. If the State significantly increases compensation, contract agencies could also increase the rate they are charging to the State and passing on to their employees. If contract agencies outbid the State, the State will end up paying more to contract agencies while still lacking a sufficient number of state employees.

PROS AND CONS

A flat incentive payment is easier to calculate, easier to understand and explain, and is probably less risky with respect to escalating contract agency rates (as long as the incentive is not too large). It is also easier to scale up or down; the General Assembly can appropriate funds based on any incentive figure that it chooses. The downside is that it is not directly aligned with compensation realities and it is not targeted by job classification. And if the incentive is too low, it is unlikely to meaningfully improve staffing levels. Staff is skeptical that short-term incentive payments of \$14,000 will meaningfully improve and sustain staffing levels at the DOC and DHS.

The percentage-based approach is more expensive, harder to calculate and consequently more difficult to explain, and may be riskier with respect to escalating contract agency rates. However, it is better aligned with compensation realities, is targeted by job classification, and will probably be more attractive to prospective employees who must work with challenging patients in a challenging environment.

CONCLUSION

Staff recommends a flat incentive model given the challenges that staff encountered when trying to develop a percentage-based model. The \$25,000 figure represents a judgement call by JBC staff that is based on a sense that \$14,000 is unlikely to significantly increase state staffing levels and reduce expenditures for contract agency staff. The JBC may consider a larger incentive figure that will give the DOC and the DHS room to be more aggressive in their recruiting efforts.