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Department of Developmental Services: Budget Trends and Recent Budget Actions

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:
Assembly Select Committee on
Intellectual and Developmental Disabilities
Hon. Jim Frazier, Chair

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Overview of Presentation

- ☑ **Department of Developmental Services (DDS) Budget Overview**
- ☑ **Major DDS Budget Components**
- ☑ **Impact of Developmental Center (DC) Closures on the DDS Budget**
- ☑ **Major DDS Budget Actions Since 2003-04**
- ☑ **Looking Ahead: Current and Future Fiscal Challenges and Considerations**

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DDS Budget Overview

☑ ***2018-19 Budget.*** The state budget provides $7.4 billion in total funds to support DDS in 2018-19, with $4.5 billion from the General Fund. The DDS budget has three components: (1) the community services program managed through the Regional Center (RC) system, making up 94 percent of estimated spending in 2018-19; (2) the state-operated residential and community facilities program, including DCs, making up 5 percent; and (3) DDS headquarters functions, making up 1 percent.

☑ ***Growth Over Time.*** Since 2005-06, the total DDS budget has grown at an average annual rate of 5.7 percent (and the General Fund budget by 5.5 percent), while DDS caseload has grown at a slower average annual rate of 3.7 percent. Figure 1 (next page) shows how cuts made during the recession stalled and even reduced growth in the DDS budget from 2008-09 to 2012-13. Since 2013-14, the total DDS budget has grown significantly—anywhere from 6 percent to 12 percent on a year-over-year basis. The primary cost drivers have been caseload growth, changes in service utilization, and increases in state funding to cover mandated state minimum wage increases among service providers.

☑ ***DDS Receives Its Funding From the General Fund and Federal Funds.*** The General Fund currently provides 61 percent of DDS's funding, while federal funds provide 39 percent.

- ***Most Federal Funds Provided as Reimbursements.*** Nearly all of DDS's federal funding—98 percent currently—is in the form of reimbursements from other state departments that receive the funds directly from the federal government.
  - ***Medicaid Funding Through the Department of Health Care Services (DHCS).*** Ninety percent of DDS's federal funding is delivered as reimbursements via DHCS for services that DDS provides as part of Medicaid Home- and Community-Based Services Waiver programs and for other Medicaid-eligible services that DDS provides.

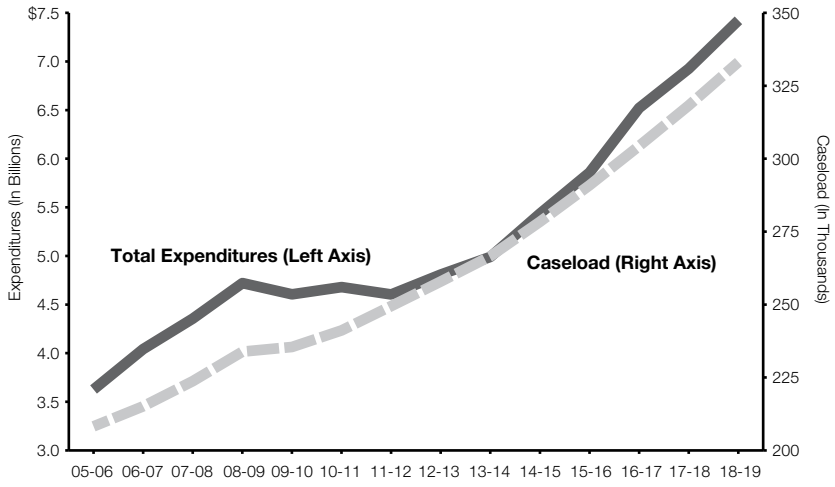
DDS Budget Overview *(Continued)*

- ***Social Services Funding Through the Department of Social Services (DSS).*** DDS receives federal Title XX block grant payments from DSS for services provided to consumers under age 18 whose families' incomes are below 200 percent of the federal poverty line. DSS reimbursements make up about 8 percent of DDS' federal funding.

- ***Direct Federal Funding.*** DDS receives 2 percent of its federal funding directly from Part C of the Individuals with Disabilities Education Act. Part C grants fund DDS' early intervention services for infants and toddlers, called Early Start. DDS distributes some Part C funding to the California Department of Education, which also provides early intervention services.

Figure 1

Department of Developmental Services Expenditure and Community Caseload Growth



Note: 2017-18 expenditures are estimated and caseload is actual; 2018-19 expenditures are as budgeted and caseload is estimated.

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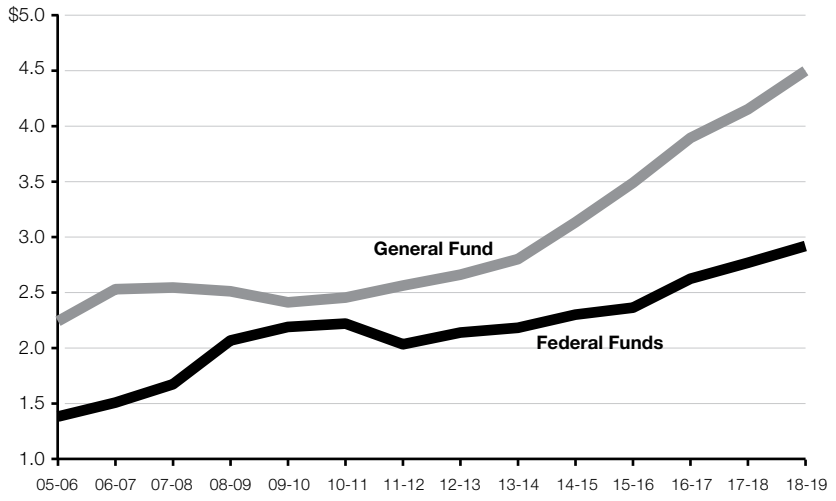
DDS Budget Overview *(Continued)*

☑ ***Historical Contributions From the General Fund and Federal Funds.*** Figure 2 shows how the relative burden on the General Fund declined during the recession, while the state was able to simultaneously increase federal reimbursements. Since 2013-14, General Fund spending has grown significantly—at an average annual rate of about 10 percent per year (compared to about 6 percent for federal funding).

Figure 2

Sources of Funding for Department of Developmental Services Budget

Fund Source (In Billions)



Note: 2017-18 amounts are estimated and 2018-19 are as budgeted.

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Major DDS Budget Components

☑ ***RC System—Community Services Program.*** The 2018-19 state budget provides $7 billion for community services, which are coordinated by 21 nonprofit RC agencies.

- ***Operations***. Just over 10 percent of RCs' funding is for RCs' operations—including salaries and benefits of RC service coordinator staff and operating expenses and rent. Each RC's funding level is based primarily on the number of consumers served. A "core staffing formula" for determining the salary of each position type at RCs has not been adjusted regularly for many years.
- ***Purchase of Services (POS) From Vendors.*** More than 40,000 vendors across the state provide all consumers' direct services and supports that are funded by DDS (and paid for by RCs) through the community services program. About 90 percent of RCs' funding (and more than 80 percent of the total DDS budget) is for POS.
- ***RCs Are "Payer of Last Resort."*** Before RCs can purchase vendors' services, they must first exhaust all other sources of public or private funds available to consumers, such as Medi-Cal or private insurance.

☑ ***State-Operated Residential and Community Facilities.*** The budget for state-operated facilities ($385 million in 2018-19, with $300 million from the General Fund) includes funding for DCs and for DDS-operated "safety net" facilities and services.

- ***"Closure" DCs.*** DDS is in the process of closing Sonoma DC (in 2018-19), Fairview DC (in 2021-22 at the latest), and the general treatment area of Porterville DC (in 2021-22 at the latest). In 2018-19, the budget for these three DCs is $190 million ($120 million General Fund) for the full-year costs of about 150 residents (at the start of the year there will be about 260 residents, by the end, about 36 residents).

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Major DDS Budget Components *(Continued)*

- ***"Nonclosure" Facilities.*** DDS will continue to operate indefinitely the secure treatment program at Porterville DC (which can serve up to 211 residents) and Canyon Springs Community Facility (which can serve up to 63 residents). In 2018-19, the budget for these two facilities is $180 million ($165 million General Fund).
- ***Safety Net Services.*** DDS currently provides two five-bed acute crisis units (one at Sonoma DC and one at Fairview DC) for individuals in the DDS system committed by court order for crisis treatment. (DDS is in the process of planning and developing five new community-based homes to both replace and supplement these units.) In addition, DDS just began offering mobile crisis services. In 2018-19, the budget for crisis facilities and services is $13 million (all from the General Fund).

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Impact of DC Closures on the DDS Budget

While the state will ultimately spend less to run DCs after the closure of all but Porterville DC (secure treatment program) and Canyon Springs Community Facility, it has incurred costs to develop resources in the community for the individuals transitioning from DCs to the community and to develop community-based safety net services to replace crisis services offered at DCs. Our office estimates there will likely be some future net savings to the General Fund when the DC closure process is complete.

☑ Costs to Close Institutions

- ***Community Placement.*** The state budget provides DDS approximately $50 million General Fund annually for costs associated with DC closures—including developing community resources for consumers moving from DCs and placing consumers in the community. This annual ongoing amount is typically augmented each year.
- ***Safety Net Development and Operation.*** DDS is in the process of developing a community-based set of homes and services that will serve consumers in crisis. The 2017-18 budget provided one-time funds of $7.5 million General Fund for this purpose. In addition, some of the homes developed with annual community placement dollars will be part of this network. DDS will also have an annual cost—likely in excess of $25 million General Fund—to operate these homes and services once developed.

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Impact of DC Closures on the DDS Budget *(Continued)*

☑ ***Potential Future Net Savings.*** DCs closures will likely result in net savings—net operational savings as well as revenues from the sale or leasing of state-owned DC properties.

- ***Reduced Operational Costs.*** Our office estimates that relative to the 2017-18 budget for closure DCs (approximately $200 million General Fund), the state could save—on net—up to $100 million General Fund annually—at most—after final closures are complete.
- ***Sale or Leasing of DC Properties.*** Potential revenues from the sale or leasing of DC properties is highly uncertain and depends on the particular characteristics of each property and decisions made by the Legislature, DDS, the Department of General Services, and local governments.

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Major DDS Budget Actions Since 2003-04

☑ ***DDS Budget Solutions During Economic Downturns.*** Numerous targeted solutions stemmed growth in the DDS budget during the most recent economic downturn. Below, we have highlighted several of the significant actions taken.

- **Benefit Reductions**
  - ***Early Start for Infants and Toddlers.*** Beginning in 2009-10 and lasting through the end of 2014, eligibility criteria in Early Start was tightened to reduce caseload growth. DDS also achieved General Fund savings in the low tens of millions of dollars by reducing the services provided in Early Start (these reductions continue today).
  - ***Social Recreation and Camp.*** Beginning in 2009-10, these services were suspended and have not been restored. The cost to restore these services has been recently estimated to be around $25 million General Fund.
  - ***Respite.*** In 2009-10, the amount of in-home and out-of-home respite an individual consumer could receive was capped. The 2017-18 state budget removed the cap.
- **Rate Restrictions**
  - ***Rate Freezes.*** A variety of services—day programs and in-home respite since 2003-04 and most other services since 2008-09—have had their rates frozen. This means that their rates are not regularly adjusted based on cost data. While the rates remain frozen, vendors have received funding to cover increased costs associated with state minimum wage increases and most vendors have received at least one rate increase since the freeze due to legislative budget action.
  - ***Median Rates.*** Since 2008-09, DDS has required new vendors of certain services to accept either the state median rate for that service or the RC's median rate for that service—whichever is lower—rather than negotiating a rate.

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Major DDS Budget Actions Since 2003-04 *(Continued)*

- ***Uniform "Holiday" Schedule.*** Instituted in 2009-10, the uniform holiday schedule prohibits RCs from paying vendors for any services on 14 set days per year. The policy was litigated in 2011 and has been suspended since 2015.
- ***Payment Reductions.*** Two vendor rate reductions were made, one in 2009-10 and one in 2010-11, however these reductions have since been restored.
- ***RC Operations Budget Cuts.*** Funding for RC operations budgets was reduced beginning in 2009-10. As noted in the next section, RCs have received certain targeted increases since that time.

☑ ***Recent Budget Augmentations.*** In 2009-10 alone, the DDS budget was cut by $334 million General Fund. Concerns about sustaining the system led the Governor to call a special legislative session of the Legislature in June 2015, which led to adoption of a package of augmentations in February 2016. Additional augmentations have been made in 2017-18 and 2018-19.

- ***2016 Special Session and 2016-17 State Budget Actions.*** More than $330 million General Fund was added to the DDS budget in 2016-17. Figure 3 (next page) summarizes the increases.
- ***2017-18 State Budget.*** The 2017-18 state budget removed the cap on respite services beginning in January 2018 (the full-year 2018-19 General Fund cost to remove the cap is estimated at $14 million General Fund). DDS was also provided $7.5 million one-time General Fund to develop community-based safety net homes and services.
- ***2018-19 State Budget.*** The 2018-19 state budget delayed enforcement of the uniform holiday schedule by one year (at an estimated cost of $29 million General Fund). It also provided $25 million one-time General Fund for vendor "bridge funding," which is meant to provide funding over two years, pending evaluation of rate reform efforts.

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Major DDS Budget Actions Since 2003-04 *(Continued)*

Figure 3

Summary of 2016-17 Department of Developmental Services Augmentations

Action	Description	General Fund Cost
Vendor rate increases	• For salary and benefit increases for staff spending at least 75 percent of their time providing direct service to consumers. • For vendor administrative costs.	$179.4 million (fixed amount)
Other vendor rate increases	• Supported living and independent living services—5 percent. • Respite services—5 percent. • Transportation services—5 percent. • Supported employment—11.1 percent. • New rate for four-bed facilities.	$71.5 million in 2016-17 (variable amount each year)
RC operations increases	• For staff salaries and benefits. • For RC administrative costs.	$31.1 million (fixed amount)
Fixed allocations for specific purposes	• Hiring new services coordinators at RCs. • Reducing racial/ethnic disparities in POS. • Incentives for consumer employment. • Preparing vendors for new HCBS rules	$55.8 million (fixed amount)

RC = Regional Center; POS = purchase of services; and HCBS = home- and community-based services.

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Looking Ahead: Current and Future Fiscal Challenges and Considerations

At least two key factors are driving changes in the DDS system: (1) shifting demographics (and a rising number of consumers generally) and (2) evolving modes of service delivery. These and other factors will present the system with several fiscal challenges going forward.

☑ Factors Causing Shifts in the DDS System

- ***Shifting Demographics.*** The DDS consumer population—estimated at about 330,000 in 2018-19—continues to grow at a rate that outpaces overall state population growth and is changing in terms of demographic characteristics.
  - ***Age.*** DDS has experienced substantial growth in the number of young consumers, which will create costs pressures as these consumers reach age 22 and begin to access more DDS services.
  - ***Lifespan.*** DDS consumers are living longer, meaning they will need services longer and will require more medical care as they age. In addition, the DDS system may be unable to rely as heavily on the parents of consumers for direct care and housing as the parents themselves age.
  - ***Diagnoses.*** The number of consumers with an autism diagnosis has grown rapidly—from 10 percent in 2000 to 35 percent in 2017. Consumers with autism typically cost more to serve. There are also more consumers now with dual mental health diagnoses than in the past. Such conditions create additional cost pressures.
  - ***Racial/Ethnic Diversity.*** Like the general population, the DDS consumer population is becoming increasingly diverse. This diversity requires careful attention to providing culturally and linguistically appropriate services.
- ***Evolving Modes of Service Delivery.*** As the DDS system becomes more focused on the particular needs and preferences of consumers served, it is changing what is required of services and vendors.

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Looking Ahead: Current and Future Fiscal Challenges and Considerations *(Continued)*

- ***Deinstitutionalization.*** Reflecting nationwide trends, the system is transforming to become nearly 100-percent community-based. (The state operated up to seven DCs and two community facilities in the past serving upwards of 13,000 people.)
- ***New Federal Requirements.*** By March of 2022, the state must comply with new federal rules as a condition of receiving federal Medicaid Waiver funding. These "home- and community-based services" rules require increased integration of DDS consumers into the community, consumer independence, and personal choice. These rules will affect most services provided.
- ***Self-Determination.*** DDS just received federal approval to phase in the self-determination program with 2,500 consumers over three years (it will then be made available to any interested consumer). Self-determination allows consumers and their families to control the choice of services and service providers, but by statute, they cannot spend more than what the state currently spends.

☑ Other Fiscal Pressures Facing the DDS System

- ***Vendor Rate Structure.*** The way that DDS vendor rates are set is complex. For example, some rates are set by statute or by DDS, while others are set according to Medi-Cal rates for comparable services. Some are negotiated between RCs and vendors, while others are provided according to a vendor's "usual and customary" rate (the rate it charges to serve the general population).
  - ***Budget Solutions and Augmentations Have Restricted Negotiated Rate Setting.*** Although there are prescribed methods for negotiating rates between an RC and vendor, rate freezes and implementation of median rates have constrained the ability the negotiate rates.

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Looking Ahead: Current and Future Fiscal Challenges and Considerations *(Continued)*

  - ***Rate Study.*** As part of 2016 special session legislation, DDS was provided $3 million General Fund to conduct a rate study. The purpose was to assess the current structure and how it affects the number of providers in the system, compare different rate setting methodologies, and provide recommendations for simplifying the structure. Results are due to the Legislature in March 2019.

- ***Community Resource Development.*** RCs and vendors have had limited ability to develop new programs in recent years. In 2017-18, the Legislature and Governor gave DDS the authority to expand the use of its current community placement dollars associated with DC closures to develop community resources for consumers already living in the community. One key challenge and potentially costly issue facing the system is provision of adequate and affordable housing. Some advocates have proposed using any savings generated from the closure of DCs for this purpose.

- ***Retaining Service Providers.*** Many vendors in the DDS system are facing their own fiscal pressures in large part due to mostly flat rates over the course of the last decade and because of competition with other minimum wage industries as the state minimum wage continues to increase.

- ***Safety Net Services.*** As noted, DDS has already begun to develop some safety net homes and services for consumers in crisis. As DCs are closed, the DDS population continues to grow, and consumers present more complicated conditions (such as dual mental health diagnoses), DDS will have to evaluate continually whether there are enough resources in the system to serve consumers in vulnerable situations.