LAO
70 YEARS OF SERVICE

October 9, 2014

Overview of Major DDS Budget Solutions Affecting the Community Caseload—2003-04 to 2014-15

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Committee on Human Services
Hon. Jim Beall, Chair

LAO
70 YEARS OF SERVICE

Background on the Lanterman Developmental Disabilities Services Act

☑ ***What Is the Lanterman Act?*** The Lanterman Act is a California law that was passed in 1977. The Lanterman Act gives individuals with developmental disabilities the right to receive services and supports that meet the individual's needs and preferences and that promote a "more independent, productive, and normal" life. At the state level, services and supports to individuals with developmental disabilities are overseen by the Department of Developmental Services (DDS).

☑ ***What Are Lanterman Services?*** There are more than 100 categories of services available to individuals with developmental disabilities who are eligible for Lanterman services. These services can include such things as housing, activity and employment programs, and in-home care.

☑ ***Who Is Eligible for Lanterman Services?*** Individuals age three and older are eligible for Lanterman services if they have an eligible diagnosis, including intellectual disability, cerebral palsy, epilepsy, autism, or conditions closely related to an intellectual disability (such as a traumatic brain injury). In addition, the following criteria related to the developmental disability must be met.

- Must begin before the individual turns 18.
- Be expected to continue indefinitely.
- Present a substantial disability in three or more areas of major life activity.

LAO
70 YEARS OF SERVICE

Background on the Lanterman Developmental Disabilities Services Act *(Continued)*

☑ ***Children Under the Age of Three May Be Eligible for Early Start Services—Under Different Eligibility Criteria.***

- Early Start is California's program that provides early intervention services—such as occupational and physical therapy, speech and language services, and audiology and vision services—to infants and toddlers in order to reduce the effects of a developmental disability or delay. The scope of services available to the Early Start caseload is more narrow than the services available to those receiving Lanterman services.
- Eligibility for Early Start does not necessarily require a diagnosis of a developmental disability, but rather, requires the presence of substantial developmental delays.
- Not all children eligible for Early Start will become eligible for Lanterman services at age three.

☑ ***Where Are Lanterman Services Delivered?***

- ***In the Community.*** More than 99 percent of the total caseload receives services and supports in community settings.
- ***In State-Operated Facilities.*** Less than 1 percent of the total caseload—mostly adults—reside in state-operated facilities, including four developmental centers (DCs) and one smaller residential facility. (Budget-related legislation enacted in 2012-13 imposed a moratorium on new admissions to DCs—with certain exceptions.)

LAO
70 YEARS OF SERVICE

Background on the Lanterman Developmental Disabilities Services Act *(Continued)*

- ***Role of Regional Centers (RCs).*** A network of 21 RCs—nonprofit private corporations—are responsible for conducting the diagnosis and assessment of eligibility for individuals and for conducting ongoing case management of existing consumers. (The RCs also conduct comprehensive assessments of needs for consumers residing in the DCs and help in the transition of consumers from a DC into the community.)

☑ ***How Does an Eligible Individual Receive Lanterman Services?*** Once an individual is diagnosed and assessed as eligible by the RC, an Individual Program Plan (IPP) is developed, which identifies services and supports that meet the needs and preferences of the consumer.

- ***The IPP Is Developed by an Interdisciplinary (ID) Team.*** The ID team includes at least one doctor, a psychologist, and a service coordinator who develop the consumer's IPP.
- ***Vendors Provide Services.*** Thousands of vendors—or, service providers—contract with DDS or the RCs in order to deliver services to individuals with developmental disabilities statewide.

☑ ***How Are Vendors Compensated?*** Vendors receive a rate for the provision of services. Vendor rates are set in several ways, depending on the type of service provided by the vendor.

- ***Vendor Rates Are Set Based on the Type of Service Provided.*** Vendor rates are either set by DDS, negotiated with the RC, or set statutorily, depending on the type of service provided. For example, rates for supported living services are negotiated with the RC while Supported Employment Program (SEP) rates are set statutorily.

LAO
70 YEARS OF SERVICE

Background on the Lanterman Developmental Disabilities Services Act *(Continued)*

- ***Two Exceptions.*** We note two exceptions to the typical rate-setting processes.
  - ***Medi-Cal Rates.*** For Medi-Cal health services provided to RC consumers, the rates are set by the Department of Health Care Services.
  - ***Usual and Customary Rates.*** For services, such as public transportation, that are mostly used by individuals who are not RC consumers, the rate paid for the RC consumer is the same as the rate paid by those who are not RC consumers—known as the "usual and customary" rate.

LAO
70 YEARS OF SERVICE

DDS Caseload—2003-04 to 2014-15

The total DDS caseload is comprised of three components: (1) those receiving services in the community who are age three and older, (2) those participating in Early Start, and (3) those residing in a DC.

DDS Caseload: Then and Now

	2003-04	2014-15[a]
Community caseload	168,763	243,414
Early Start caseload	21,353	31,282
DC caseload	3,490	1,112
Total DDS Caseload	**193,606**	**275,808**

[a] 2014-15 caseloads are DDS estimates.
DDS = Department of Developmental Services and DC = developmental centers.

☑ ***Community Caseload Has Grown Steadily.*** The community caseload has grown from 168,763 in 2003-04 to an estimated 243,414 in 2014-15—an average growth of 4 percent annually over the time period.

LAO
70 YEARS OF SERVICE

DDS Caseload—2003-04 to 2014-15

(Continued)

☑ ***Early Start Caseload Growth Has Fluctuated.*** The Early Start caseload has also grown by an average of 4 percent annually between 2003-04 and 2014-15. However, the year-to-year growth is more volatile compared to the community caseload growth because of tightened Early Start eligibility criteria beginning in 2009-10 and lasting through the end of 2014—described later in this handout.

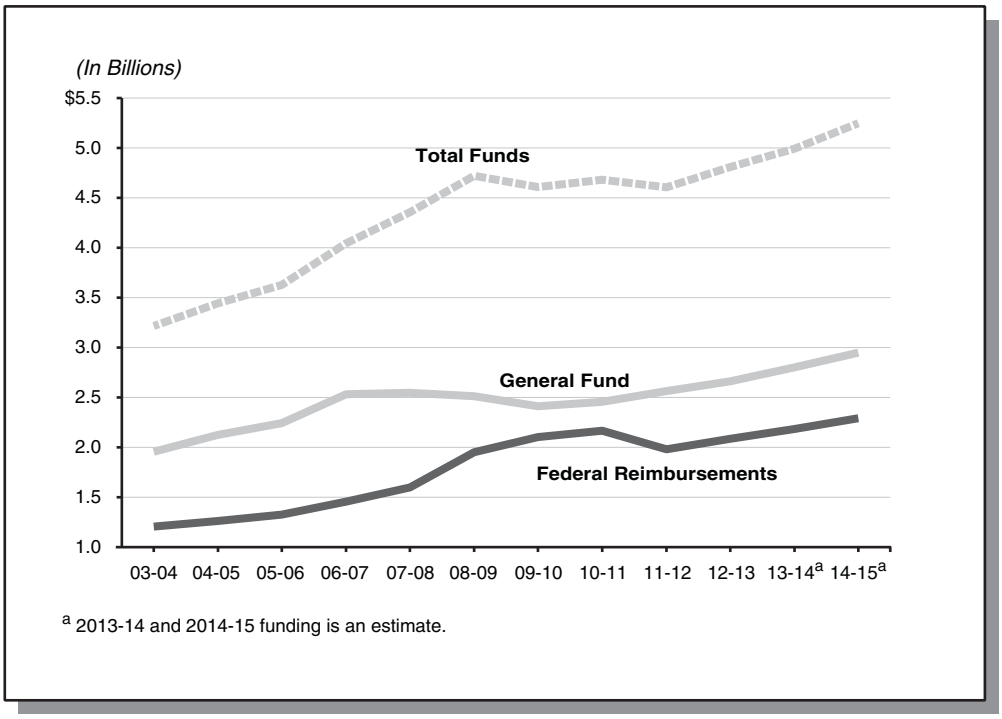
☑ ***The DC Caseload Has Steadily Declined.*** The DC caseload has declined from 3,490 in 2003-04 to an estimated 1,112 in 2014-15—an average decline of 6 percent annually over the time period.

LAO
70 YEARS OF SERVICE

DDS Funding—2003-04 to 2014-15

The DDS system is primarily funded by a combination of state General Fund monies and federal reimbursements.

☑ ***The DDS Funding Has Increased Over Time, With Major Changes Between 2008-09 and 2011-12.*** The total DDS budget will reach an estimated $5.2 billion in 2014-15—an increase of $2 billion above the 2003-04 funding level. During the period from 2008-09 to 2011-12, General Fund support decreased while federal reimbursements increased, reflecting the implementation of budget reductions that reduced General Fund support for DDS, the temporary influx of federal American Recovery and Reinvestment Act funds, and the permanent influx of additional federal Medicaid funds. We describe the major DDS budget solutions in the next section of this handout.



[a] 2013-14 and 2014-15 funding is an estimate.

LAO
70 YEARS OF SERVICE

DDS Funding—2003-04 to 2014-15

(Continued)

☑ ***Increase in Total Spending for DDS Reflects Growing Caseload.*** Although various budget reductions have been implemented, total spending for DDS has increased between 2003-04 and 2014-15 in large part due to a growing caseload.

LAO
70 YEARS OF SERVICE

Major DDS Budget Solutions Affecting the Community Caseload and RC Administration—2003-04 to 2014-15

Over the past decade, DDS implemented numerous budget solutions. Here, we have highlighted major budget solutions—affecting the community caseload and RC administration—that generally yield annual estimated savings of $15 million General Fund or more. These major budget solutions fall into five broad areas.

- Implementation of vendor rate restrictions to avoid General Fund costs.
- Pursuit of additional federal Medicaid funds to offset General Fund costs.
- Increased reliance on "generic resources" and other stricter standards for purchasing services to offset or reduce General Fund costs.
- Suspension or alteration of services to reduce General Fund costs.
- Reductions to RC administration funding.

☑ ***Restrictions on Vendor Rates.*** Between 2003-04 and 2014-15, several restrictions on rates paid to vendors were implemented as a means of achieving budgetary savings. These restrictions generally fall into the following three categories: (1) rate freezes, (2) implementation of median rates, and (3) provider payment reductions.

- ***Widespread Rate Freezes . . .*** By implementing permanent vendor rate freezes, DDS has avoided costs associated with rate increases that would otherwise have occurred to reflect vendors' increasing costs.
  - ***Rate Freezes Began in 2003-04.*** Some vendor services, including community-based and similar day programs, in-home respite, supported living services, and transportation, experienced permanent rate freezes beginning in 2003-04. By 2008-09, all vendors with rates negotiated with the RC experienced these permanent rate freezes.

LAO
70 YEARS OF SERVICE

Major DDS Budget Solutions Affecting the Community Caseload and RC Administration—2003-04 to 2014-15 *(Continued)*

- ***. . . With Some Exceptions.*** There are some limited exceptions to the widespread rate freezes currently in place. Once these exemptions were granted, rates were frozen at the new level.
  - ***Some Rate Increases Have Been Provided.*** Vendors with rates set by DDS and some vendors with rates negotiated with the RC experienced a 3 percent rate increase in 2006-07.
  - ***Rate Increases for Minimum Wage and Overtime.*** Certain vendors received rate increases directly related to increases in the state's minimum wage in 2006-07, 2007-08, and 2014-15. Vendors providing in-home care received a rate increase related to federal overtime pay requirements beginning in 2014-15.
  - ***Health and Safety Exemptions.*** Some vendors have exercised their ability to request an exemption from the rate freeze or the median rate (described below) if a consumer's health and safety is at risk.
- ***Implementation of Median Rates Beginning in 2008-09.*** When negotiating rates with *new* vendors, the RC is required to negotiate a rate that does not exceed the statewide median rate or the RC median rate for the service—whichever is lower. In 2011-12, a new survey was conducted that resulted in lower median rates, and therefore avoided costs that would have otherwise occurred if the median rate remained higher.
- ***Provider Payment Reductions Implemented Beginning in 2009-10.*** In addition to the rate freezes and implementation of the median rates, provider payment reductions impacted all vendors—except SEP providers and providers with usual and customary rates—on a year-to-year basis.

Major DDS Budget Solutions Affecting the Community Caseload and RC Administration—2003-04 to 2014-15 *(Continued)*

Provider Payment Reductions

(Dollars in Millions)

	2009-10	2010-11	2011-12	2012-13
Percentage reduction[a]	3.00%	4.25%	4.25%	1.25%
Estimated General Fund savings[a]	$51	$75	$94	$28

[a] Percentage reduction and related estimated General Fund savings are not cumulative, but are implemented on a year-to-year basis.

- ***The SEP Rate Was Effectively Increased by a Net of 14 Percent From 2006-07 to 2008-09.*** The SEP providers received a 24 percent rate increase in 2006-07 at an estimated General Fund cost of $11 million. In 2008-09, SEP providers experienced a 10 percent rate reduction, for estimated General Fund savings of $8 million.

☑ ***Some General Fund Costs Have Been Offset by Additional Federal Medicaid Funds Beginning in 2009-10.*** The DDS pursued a variety of methods for increasing federal Medicaid funds. For example, since enrolling eligible consumers in a waiver program results in additional federal Medicaid funding, DDS sought to increase waiver enrollment in 2012-13.

Additional Federal Medicaid Funds

(In Millions)

	2009-10	2010-11	2011-12	2012-13	Total Annual Additional Federal Medicaid Funds
Additional federal Medicaid funds	$138	+$51	+$21	+$61	$271

LAO
70 YEARS OF SERVICE

Major DDS Budget Solutions Affecting the Community Caseload and RC Administration—2003-04 to 2014-15 *(Continued)*

☑ ***Increased Reliance on Generic Resources and Other Stricter Standards for Purchasing Services Beginning in 2009-10.*** Generic resources refer to services that are available to the RC consumer outside of the DDS system, such as public education services, and can be maximized prior to the RC purchasing similar services on behalf of the consumer. Generally, by maximizing generic resources, the cost of purchasing services is either (1) less than it would otherwise have been, or (2) shifted to an entity other than DDS. Beginning in 2009-10, standards were established for maximizing the use of specific generic resources and the RCs were generally prohibited from paying for services otherwise available through these generic resources.

Estimated Annual General Fund Savings From Maximizing the Use of Generic Resources and Other Stricter Standards to Achieve Cost Savings

(In Millions)

Source	
Increased use of generic resources, such as Medi-Cal or private health insurance, for health needs and other stricter standards for purchasing treatments, therapies, and devices.	$51
Increased use of public transportation and other transportation standards geared towards cost savings.	37
Increased use of neighborhood preschools.	18
Increased use of public education services for consumers 18 to 22 years of age.	14
Increased use of private health insurance for Early Start.	13

- ***Private Health Insurance Plans Mandated to Cover Behavioral Services Beginning in 2012-13.*** Private health insurance plans were required to cover behavioral services as a plan benefit beginning in 2012-13. Since RC consumers are required to access services available through their private health insurance plans before the RC will purchase the services, the RCs generally no longer purchase behavioral services for RC consumers who are covered by private health insurance plans. This results in estimated annual savings of $80 million General Fund.

Major DDS Budget Solutions Affecting the Community Caseload and RC Administration—2003-04 to 2014-15 *(Continued)*

☑ ***Some Services Have Been Suspended or Altered.*** Beginning in 2009-10, a number of services were suspended or altered in order to achieve budgetary savings. Below, we list some of the major changes and the related estimate of annual General Fund savings expected at the time the change was first implemented.

Suspended or Altered Services

(In Millions)

Description of Budget Solution	Estimated Annual General Fund Savings
Early Start Eligibility Criteria Tightened Beginning in 2009-10. Tightened eligibility criteria for children 2-3 years of age and eliminated eligibility for "at-risk" children. (The Prevention Program was established for children no longer eligible for Early Start.)	$33
Certain Early Start Services Suspended Beginning in 2009-10. Suspension of certain Early Start services that are not required by the federal government, such as child care, dentistry, and respite services.	8
Suspended Various Services Beginning in 2009-10. The suspended services include social/recreational services, camping services, educational services for school-aged children, and non-medical services.	30
Stricter Standards for Purchasing Behavioral Services Beginning in 2009-10. The RCs must follow certain stricter standards for purchasing Applied Behavioral Analysis or Intensive Behavior Intervention Services.	21
Redesigned Services for Individuals With Challenging Service Needs Beginning in 2012-13. A number of changes were made to enhance federal funding, such as reduced reliance on facilities ineligible for federal funding.	20
Uniform Holiday Schedule Beginning in 2009-10. The number of holidays during which services are not provided was increased for most community-based and similar day programs and work activity programs.	16

☑ ***Reduced RC Administration Funding in 2009-10 Through 2011-12.*** The RC administration budget experienced a number of reductions, such as a percentage reduction in each of three fiscal years—2009-10, 2010-11, and 2011-12.

Major DDS Budget Solutions Affecting the Community Caseload and RC Administration—2003-04 to 2014-15 *(Continued)*

Estimated Regional Center Administration Reductions

(In Millions)

	2009-10	2010-11	2011-12
Estimate of annual General Fund savings[a]	$25	$14	$30

[a] Estimate of annual General Fund savings is not cumulative, but reflects savings on a year-to-year basis.

☑ ***Other Budget Solutions Total More Than $100 Million in Estimated Annual General Fund Savings.*** There were a number of other budget solutions implemented between 2003-04 and 2014-15 that—in total—were estimated to exceed $100 million in annual General Fund savings. These budget solutions include such things as stricter standards for supported living and respite services that result in lower costs and new or higher fees for certain families. Although these budget solutions have a real impact on the lives of consumers and their families, we have generally limited this handout to changes that were estimated to result in savings that individually exceed $15 million General Fund annually.

LAO
70 YEARS OF SERVICE

DDS Funding Restorations

☑ ***Provider Payment Reduction Eliminated in 2013-14.*** The estimated General Fund cost to eliminate the 1.25 percent payment reduction (implemented in 2012-13) was $28 million.

☑ ***Broader Early Start Eligibility Criteria Will Be Restored Beginning January 1, 2015.*** The 2014-15 budget provides $8 million General Fund to restore Early Start eligibility criteria to the broader pre-reduction level.