

MAY 2019

Stabilizing Services for Consumers in the DDS System Item 4300-101-0001

PRESENTED TO:

Budget Conference Committee
Hon. Holly J. Mitchell, Chair



LEGISLATIVE ANALYST'S OFFICE



Item 4300-101-0001

Stabilizing Services for Consumers in the Department of Developmental Services (DDS) System

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Complex, Outdated, and Nontransparent Rate-Setting Process in the DDS System . . . Currently, there are several established methods—some of which are intrinsically complex—for setting service providers’ rates in the DDS system, and more than 150 service codes. Targeted budget solutions enacted in recent economic downturns further complicated the way rates are set and, in practice, even the established methods no longer apply. There are also significant inequities in the rates provided to otherwise similar providers.

. . . Resulted in the Legislature’s Call for a Rate Study. Chapter 3 of 2016 (AB X2 1, Thurmond), required DDS to conduct a study of the service provider rate-setting process, to examine the sustainability, quality, and transparency of services, and make recommendations about ways to reform the system. The study was due March 1, 2019.

Draft Rate Study Report Submitted to the Legislature on March 15, 2019. DDS and its consultant submitted a draft rate study report (the final report is still forthcoming) suggesting the system was underfunded by \$1.9 billion (\$1.2 billion General Fund), relative to the Governor’s proposed 2019-20 DDS budget, and that significant structural and administrative changes would be required to reform the rate-setting process.

Governor, Senate, and Assembly Each Approved Proposals for 2019-20 That Respond, in Part, to the Rate Study. While the administration and Legislature appear to agree it would be infeasible in 2019-20 to fully implement rate reform as proposed in the rate study due to the price tag and implementation challenges, the Governor, Senate, and Assembly each propose interim solutions. While all three appear to have similar goals—providing some fiscal relief to service providers in 2019-20 and having discussions about rate reform implementation—their approaches differ in the amount appropriated and how it is applied. In contrast to the Governor, who does not have a formal proposal for ensuring DDS develops a rate reform implementation plan, the Senate and Assembly would codify the process, including establishing expectations and milestones, for DDS’ development of a rate reform implementation plan.



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General Fund (In Millions)

	Governor	Senate	Assembly	Difference (Senate-Assembly)
Rate Increases^a	\$102.5	\$200.4	\$102.5	\$97.9
Other Fiscal Policy Changes				
Fix state minimum wage “quirk” ^b	—	9.1	—	9.1
Suspend/repeal uniform holiday schedule (not in conference)	30.1 ^c	30.1	30.1	—
Repeal half-day billing policy (not in conference)	—	1.6	1.6	—
Restoration of Benefits^d	—	2.6	14.8	-12.2
Totals	\$132.6	\$243.8	\$149.0	\$94.8
Language Only				
Trailer bill requiring DDS to submit a rate reform implementation plan with 2020-21 budget	—	Implementation begins January 2021	Implementation begins July 2020	Senate begins implementation six months later

^a The Governor, Senate, and Assembly take different approaches to increasing rates, as discussed below. These amounts include DOR increases for supported employment (\$1.3 million General Fund for the Governor’s and Senate’s plans and \$357,000 General Fund for the Assembly’s plan), which conform to DDS rates for this service. Because rate increases would begin in January 2020, these amounts represent half-year costs. The annualized cost for both the Governor’s and Assembly’s plans is \$205 million General Fund, but the Governor’s plan would sunset in December 2021 while the Assembly’s is ongoing. The annualized ongoing cost of the Senate’s plan is \$400.8 million General Fund.

^b Fixing the quirk would allow service providers in areas with local minimum wage ordinances to request a rate increase associated with state minimum wage increases (as providers in areas without local minimum wage ordinances are allowed to do). This change would take effect with the state minimum wage increase scheduled for January 1, 2020.

^c The Governor proposes to suspend the uniform holiday schedule, reinstating it in January 2022, while the Senate and Assembly propose repealing it.

^d The Senate action would restore social recreation and camp services; the Assembly action would restore those services as well as educational services for children ages 3 through 17 and nonmedical therapies. DDS=Department of Developmental Services, DOR=Department of Rehabilitation.



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Governor Targets Rate Increases Based on Findings From the Rate Study. Based on what it learned from the rate study, the administration proposes targeted rate increases in select service categories (residential facilities, supported employment, support services, and transportation assistance) that it has identified as most in need of rate increases. It also seeks to reduce some arbitrary differences in the current rates of providers in the same geographic area. These rate increases would sunset December 31, 2021.

Senate and Assembly Go Further Than the Governor. The Senate and Assembly each approved more funding overall for the DDS system than did the Governor. While certain elements of their plans are the same, their approaches differ in several key ways.

■ ***Rate Increases.***

- The Senate approved the Governor’s targeted approach (although it rejected the sunset).
- The Senate also approved an across-the-board rate increase of 8 percent for providers not included in the Governor’s plan and for any provider included in the Governor’s plan that would have received less than 8 percent.
- The Assembly approved the amount proposed by the Governor, but instead of targeting it, would apply it across the board. This results in an increase of between 5 percent and 6 percent for all providers. It rejected the Governor’s sunset.

■ ***Other Fiscal Policy Changes.***

- The Senate approved fixing the state minimum wage “quirk,” which would allow providers in areas with local minimum wage ordinances to seek rate adjustments related to increases in the state minimum wage (as other providers are allowed to do). This policy would take effect with the January 1, 2020 state minimum wage increase.



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- Both the Senate and Assembly voted to permanently repeal the “uniform holiday schedule.” The holiday schedule was a recessionary budget solution that prohibited payment for certain services on 14 set days per year.
- Both the Senate and Assembly voted to permanently repeal the half-day billing policy. The half-day billing policy affects services like day programs and work activity programs. It stipulates that a provider can only bill for a half day of service (rather than a full day) if the consumer attends the program for less than 65 percent of the day.
- **Restoration of Certain Benefits That Were Previously Suspended.** Both the Senate and Assembly voted to restore funding for some benefits that were previously suspended. The cost in 2019-20 represents a partial cost as services are ramped up.
 - The Senate approved restoration of social camp and recreation services, which were suspended during the most recent recession. The 2019-20 cost is \$2.6 million General Fund, while the annual cost for full implementation is \$4.9 million General Fund.
 - The Assembly approved restoration of social recreation and camp services, as well as nonmedical therapies and educational services for children ages 3 through 17. The 2019-20 cost is \$14.8 million General Fund, while the annual cost for full implementation is \$27.3 million General Fund.
- **Language Only—Rate Reform Implementation Plan.** Both the Senate and Assembly approved placeholder trailer bill language requiring DDS to submit a rate reform implementation plan with the Governor’s 2020-21 budget proposal. The only difference between the two actions is that the Senate requires DDS to begin rate reform implementation by no later than January 2021, while the Assembly requires it to begin no later than July 1, 2020.