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Sequestering Savings From the Closure of Developmental Centers

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 Budget Subcommittee No. 1
On Health and Human Services
Hon. Joaquin Arambula, Chair





Developmental Center (DC) Closures

- ☑
State Will Fully or Partially Close Three DCs. Following a 2015 decision by the Governor and Legislature, the Department of Developmental Services (DDS) will fully or partially close three DCs (we refer to these as “closure DCs”) in the next several years. The figure below summarizes the closure schedule.

State to Fully or Partially Close Three Developmental Centers (DCs)

State-Run Institution	County	Closing?	Scheduled Closure Date	Number of Residents (as of July 1, 2017)
Sonoma DC	Sonoma	Yes	December 2018	256
Fairview DC	Orange	Yes	December 2021	162
Porterville DC—General treatment area	Tulare	Yes	December 2021	116
Porterville DC—Secure treatment program	Tulare	No	—	205 ^a
Canyon Springs Community Facility	Riverside	No	—	48 ^b

^a Statute currently limits the population at Porterville DC’s secure treatment program to 211.
^b Canyon Springs Community Facility can serve up to 63 residents at one time.

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DC Closures Require Transitioning Residents to the Community. The 534 remaining DC residents (as of July 1, 2017) will transition to community-based living situations. Regional Centers will coordinate all necessary services and supports for these individuals.

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Savings From the Closure of DCs. There has been legislative interest in earmarking savings from the closure of DCs for DDS’s community services program. The two main possible sources of savings are:

- **Net Operational Savings.** These savings reflect the avoided costs to serve the remaining consumers at DCs less the new costs to (1) serve these individuals in the community and (2) provide safety net and crisis services that were formerly delivered at Sonoma and Fairview DCs. To the extent avoided costs exceed the new costs, net operational savings result.



DC Closures

(Continued)

- ***Revenues Generated From the Sale or Leasing of DC Properties.*** DCs are located on state-owned properties, which can be sold or leased to generate revenue.

Net Operational Savings



Calculating Net Operational Savings. We calculate net operational savings (in 2017-18 dollars) as follows:

■ ***Annual General Fund Cost at Closure DCs in 2017-18.***

While DDS's total DC budget in 2017-18 is about \$490 million (\$360 million General Fund), the only potential source of net operational state savings in terms of avoided costs is *General Fund* spending at *closure DCs*—about \$200 million in 2017-18.

■ ***Annual General Fund Cost to Serve Remaining DC Residents in the Community, After Final Closures.***

The state will incur costs in DDS programs and other state programs, such as Medi-Cal and In-Home Supportive Services, to serve the remaining 534 DC residents in the community—an estimated \$75 million General Fund annually following final closures.

■ ***Annual General Fund Cost to Operate Crisis Services in the Community, After Final Closures.***

Sonoma and Fairview DCs each house an acute crisis unit, which any individual in the DDS system is eligible to access. Once these DCs close, however, all safety net and crisis services will be provided in community-based settings at an annual General Fund cost of about \$25 million.



LAO Bottom Line. As summarized in the figure on the next page, annual General Fund net operational savings following DC closures could reach \$100 million, at most. This estimate however, is highly variable, and does not include significant one-time state costs to develop special homes and services in the community for former DC residents.



Net Operational Savings

(Continued)

Estimated Annual Net Operational Savings After Developmental Center (DC) Closures	
<i>General Fund (In Millions of 2017-18 Dollars)</i>	
Reduced spending at closure DCs	\$200
Less:	
DDS cost of community services for former DC residents	-60
DDS cost to operate/provide safety net and crisis services	-25
Costs in other state departments ^a	-15
Total Estimated Annual Net Operational Savings	\$100
^a Costs include the state portion of Medi-Cal, Supplemental Security Income/State Supplemental Payment, and In-Home Supportive Services payments. DDS = Department of Developmental Services.	



Potential Revenues From DC Closure Properties



Selling Properties. The state could generate revenue from the sale of DC property, which the Legislature could decide to earmark for DDS’s community services program.

■ ***Potential Benefits of This Option:***

- Reduced state liability at these locations.
- One-time influx of revenue.
- Potential to earn interest from the principal of sale proceeds.

■ ***Potential Challenges and Issues With This Option:***

- Unique characteristics of each closure DC property, such as aging infrastructure at Sonoma DC; local zoning restrictions at Fairview DC; and proximity to—and shared utility infrastructure with—the continuing secure treatment program at Porterville DC, affect the properties’ market value and sale potential.
- Local preferences, such as zoning rules and voter approval requirements for certain development projects, could affect property value and interest among private entities to purchase the property.
- Currently unknown value of the properties.
- Potentially having to bypass the typical surplus state property process (legislative authority may be needed).



Leasing Properties. The state could retain the properties, but lease individual parcels.

■ ***Potential Benefits of This Option:***

- Ongoing source of lease revenue.
- Availability of the land/buildings for potential future state use.



Potential Revenues From DC Closure Properties

(Continued)

- Possible increase in supply of mixed-income housing if leased to an affordable housing developer.

- ***Potential Challenges and Issues With This Option:***

- State typically does not lease properties and serve as a landlord, especially if the primary goal is to raise revenue (a more likely goal, for example, would be to increase the supply of affordable housing).
- Unique characteristics of each DC property could affect leasing potential.



- ***Leasing DC Property to an Affordable Housing Developer.***

One particular leasing option is entering into an agreement with a mixed-income housing developer. There is precedent for this type of project within the DDS system.

- ***Potential Benefits of This Option:***

- Increased supply of housing for DDS consumers and other members of the community (low income and otherwise).
- Surplus rental proceeds that could be used to subsidize DDS consumers' rent and renovate units to meet DDS consumers' needs.
- Ongoing source of revenue, although this could be small and would unlikely be the primary goal of pursuing this option if current DDS agreements with housing developers serve as a guide.



Potential Revenues From DC Closure Properties

(Continued)

■ ***Potential Challenges and Issues With This Option:***

- Fairview DC is in a good location, but there are already two mixed-income housing developments there (one is still in the planning phase) and it is possible the local community would reject a third, given that development is subject to voter approval.
- Sonoma DC is not in close proximity to other services and supports that DDS consumers would need if they lived there. DDS would need to consider developing services nearby or providing access to good transportation.
- Porterville DC's location is more remote and houses the secure treatment program.



Other Issues for Legislative Consideration

- ☑ ***Earmarking Closure DC Savings Limits Flexibility of Future Legislatures.*** Constitutional mandates, voter initiatives, federal matches, and other decisions to earmark funds limit the ability of future Legislatures to respond to changing budgetary conditions. Earmarking the use of net operational savings or revenues from DC closures to be spent in the DDS system would be another example of constraining future legislative budgetary decisions. We note that regardless of whether it earmarks funding, the Legislature can always choose to increase spending on DDS.

- ☑ ***Effectively Targeting Savings.*** If the Legislature decides to earmark savings from DC closures for DDS, there are some additional issues for the Legislature to consider.
 - ***Align One-Time Spending With One-Time Sources of Funding.*** The Legislature may wish to avoid committing to ongoing spending if the source of funding is one time in nature.

 - ***Consider a Comprehensive Assessment of Service Gaps in Community Services.*** To help it make effective spending decisions, the Legislature should consider requiring DDS to conduct a comprehensive assessment of service gaps and related unmet funding requirements in the community services program.