Synopsis
Fiscal Analysis of Assembly Bill 896
(The Shea Report)[*]

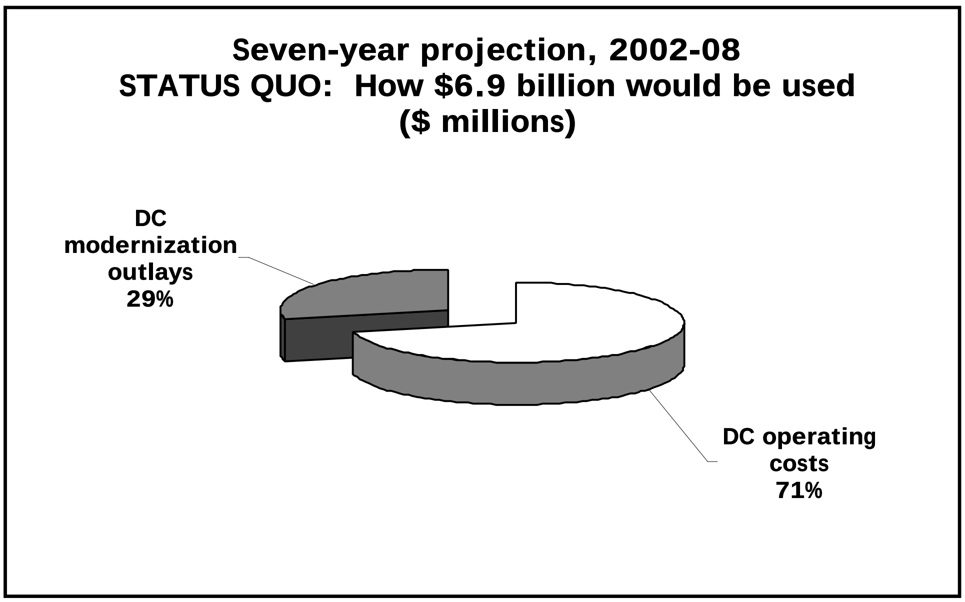
July 2, 2001

What *difference* would the bill make over seven years, 2002-08?

- Five large, state developmental centers (DCs) would no longer serve 3,700 residents, but fewer than 1,000, mainly forensic patients who are a significant danger to others, and perhaps some others who cannot move.

- Quality community programs and services would be developed for 3,200 individuals who would otherwise enter or stay in DCs.

- If $1 for $1 federal financial participation (FFP) could be maintained, as much as **$1 billion** in operating funds would be available to meet *urgent unmet needs* in the community (CARE Account). If only 80% of on-going operating expenses in the community could be matched with federal dollars, and if *all* one-time start-up costs were funded entirely with State General Fund (GF) money, about **$830 million** would still be available in the CARE Account.



- The cost of fixing up all of the DCs will be between $1.5 and $2.0 billion. But, with the requirement that three be closed by 2008, the State would avoid the expenditure of **$750 million to $1 billion** from the State GF.

- Three of the five DCs would be closed by 2008, with sale/lease proceeds of **$300 million** or more used to capitalize a newly-established *Lanterman Trust Fund (LTF)* to support affordable housing in the community and achieve other purposes (e.g., adaptive equipment manufacturing; centers for health-care support services throughout the State).

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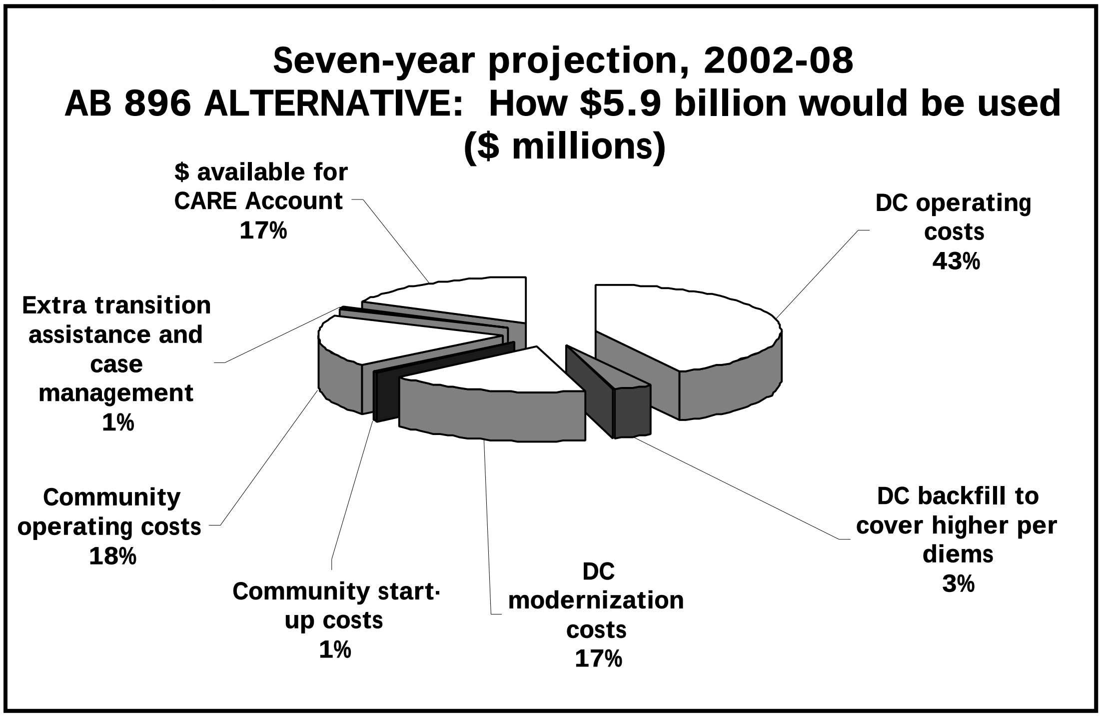
Alternative uses of the money, over seven years, 2002-08

If things continue as they are, between 2002 and 2008, about **$6.9 billion** will be spent at DCs to serve 3,700 individuals. Just over half of the **$4.9 billion** for DC operations will be federal funds; the rest, State GF. DC modernization costs, using *Vanir Report* high estimates and taking into account changes in construction costs through time, could be close to **$2 billion,** with practically all coming from the State General Fund.



If AB 896 becomes law, only **$5.9 billion** would be needed and it would be used differently. **$2.5 billion** would be used to serve a declining number of residents at DCs through 2008. **$207 million** more would be needed at the DCs to cover higher per diems occasioned by the inability to reduce fixed and semi-fixed costs as rapidly as variable costs. One-time, start-up costs in the community – over and above what is already in DDS's Community Placement Plan -- will require about **$37 million.** Extra transition planning and assistance, half at DCs and half at regional centers (RCs) and in the community, will cost another **$37 million** or so. On-going operating (or service) costs in the community are expected to total about **$1.1 billion** from 2002 to 2008. DC modernization costs (wholly GF) could amount to as much as **$1.0 billion,** because two DCs may stay open indefinitely, and three may need some modernization prior to closure. At the same time, nearly **1.0 billion** in fix-up costs could be avoided entirely.

Beyond what is shown in the **chart, above, . . .**

- **$300 million** will be available to capitalize the *Lanterman Trust Fund*.
- **$940 million** will not be needed to modernize DC facilities.

Assumptions:

Most important:

- In controlling diseconomies of scale, with downsizing and closing DCs, California will be as successful as the collective experience of twelve states that reduced their population in large (16+ residents), state-operated facilities by 75% or more from 1988 to 2000. This means for every 6% reduction in DC population, there is only a 1% rise in per diem as a consequence of inability (in the short-term) to reduce *fixed* and *semi-fixed* costs.
- The annual *net reduction* of about 500 DC residents is done in a way to maintain federal financial participation (FFP), especially in the first year. California's underutilized Medicaid Home- and Community-Based Services (HCBS) Waiver is expanded to minimize future total reliance on the State General Fund for some community services. FFP in community services, under the HCBS Waiver, is 50 cents on the dollar, in keeping with federal policy.

Price level changes and construction outlays:

- Unit operating costs at DCs and in the community grow by 5% per year, reflecting changes in prices, real wages, and ever rising service standards.
- Cost-of-construction rises by 6% per year, reflecting increasing physical facility standards, and the common experience of cost over-runs in that industry.
- All physical facility improvements at DCs are accomplished between 2002 and 2008, with highest percentages of the total outlay in 2006 and 2007 (18%, each year); 9% of improvement made in 2002; the last 16%, in 2008.
- One DC closes in 2004; one in 2006; and one in 2008. Only 25%, 33%, and 50% of assumed annual improvements are made at these three facilities, respectively, because consolidation of facilities and services should reduce the need (and waivers may be approved, pending closure).

Other assumptions:

- Extra transition assistance (i.e., person-centered, individual program planning; and follow-up) for those in the *net shift* to community services will cost about $10,000 per person in 2002, with the unit cost (like all others) rising 5% per year. Half the extra services will be provided by DC staff; half by RC and community service providers.
- One-time, program and facility start-up costs average $13,000 per person in 2002, and increase 5% per year thereafter. This represents $7,000 more per person above the amount already budgeted in the Department's Community Placement Plan ($6,000 per person in 2002).
- On-going operating expenses in the community, for those deflected or transitioning to the community, average about $71,000 per person-year in 2002, rising to about $96,000 per person-year by 2008.
- Additional regional center case management assumes 45:1 ratio, with each such unit budgeted at $60,000, with this unit cost increasing 5% per year.

What about changes in SSI/SSP, IHSS, and Ordinary Medi-Cal?

- Additional outlays in these three programs, over the period 2002 to 2008, could amount to **$150 million** or so.
- These are relatively small impacts for each of these very large programs.
- No one has argued that a person should live in an institutional setting because of the impact of AB 896 on these generic services and supports.

Seven-year Projected outlays, State and federal ($ millions)

Some Details

STATUS QUO:

1. to serve about 3,700 residents at five developmental centers (DCs)	$4,887
2. to bring DCs into compliance with seismic, ADA, building, and program requirements (high estimate, *Vanir Report)*.................	1,972
TOTAL..	**$6,859**

AB 896 ALTERNATIVE:

1. to serve residents (-500 per year for 6 years; -200 in 7th year) within DCs, ignoring increase in *per diem* due to *diseconomies of scale*	$2,512
2. to cover *diseconomies of scale* at DCs	207
3. to pay for *extra transition assistance* by DC staff	18
4. to bring DCs into compliance with seismic, ADA, building, and program requirements (high estimate; *Vanir Report):*	
* at two DCs projected to be open in 2008	809
* at three DCs projected to be closed by 2008...........................	222
5. to cover added one-time start-up costs in the community	37*
6. to cover on-going operating costs in the community for those who otherwise would be served in the DCs......................................	1,060
7. to cover added case management services at regional centers (RCs)...	20
8. to pay for *extra transition assistance* by RC staff and community providers	18
9. dollars potentially available (CARE Account) to meet other *urgent, unmet needs* among those not deflected or transitioning to the community	1,015
TOTAL..	**$5,919**
s State General Fund (GF) dollars not needed for capital improvements at DCs	**$941**

* This amount is over and above a projected $10 million, predicated on continuation of DDS's Community Placement Plan.

NOTE: Detail may not add to total due to rounding.