F303.1

STEPS TO CALCULATION OF SAVINGS WITH REDUCTION
OF MR POPULATION IN STATE REGIONAL CENTERS

I. BASIC PRINCIPLES

A. Per diem charged for MR services in state regional centers are a projection of the dollars necessary to cover personnel, administrative, utility, and other costs.

B. Any consideration of savings must consider both revenues foregone with movement of people to community settings and the costs associated with downsizing of services in state regional centers.

C. Revenues for MR services are reimbursed under Title XIX which consists of federal, state, and county dollars roughly at the percentages of 52, 43, and 5, respectively.

D. State hospital expenditures will not decrease dollar for dollar with reduction in revenues associated with downsizing because of fixed and administrative costs.

E. Layoff of state regional center personnel with downsizing can incur a cost for unemployment compensation, severance pay, and continued health benefits.

F. Expenditures not reimbursed with Title XIX dollars are covered by state general fund dollars.

II. CALCULATION OF SAVINGS FROM THE "REVENUE" SIDE OF THE EQUATION

A. The state "saves" money in the sense that as a person moves from the regional center to community settings, they no longer are required to pay their share of MA cost, 43 percent of per diem charge.

B. The state may actually "lose" federal Title XIX dollars if the person doesn't go into a community setting which is eligible for Title XIX reimbursement. If a person went into a residential or day program which is not Title XIX eligible, the state and county dollars for that service would increase.

C. The steps to revenue "savings" would be as follows:

1. Determine per diem charge for the years of downsizing, i.e., FY 1987, $159.20.

2. Downsizing will occur over the course of the biennium, so need to determine reasonable coverage reduction of persons per year. Assuming equal reduction over a year:

FY 1988	Reduction 200, over the year average 100;
FY 1989	Reduction 200, average reduction over the years is 200 from FY 1988 and 100 from FY 1989 for a total of 300.

3. Total revenue savings:

FY 1988	100 persons x $159.20 x percentage growth in per diem from FY 1987 x 365 days;
FY 1989	300 persons x $159.20 x percentage growth in per diem from FY 1987 x 365 days.

4. Net "state" savings:

FY 1988	Total from "3) revenue savings" FY 1988 x 43 percent;
FY 1989	Total from "3) revenue savings" FY 1989 x 43 percent.

<u>III. CALCULATION OF SAVINGS FROM THE "EXPENDITURE SIDE OF THE EQUATION</u>

A. The calculation of savings from the "revenue" side of the equation fails to consider costs that will continue to be incurred even with downsizing. The calculation of the "revenue" side does tell, however, maximum dollar savings initially.

B. The basic steps to consider for calculation of expenditure savings is to determine the costs that are fixed ~~i~~regardless of number of persons in state regional centers and the costs that are variable with client movement. Variable costs such as staff salaries are the most easily identifiable when staffing needs to be reduced based on downsizing.

C. Actual steps to expenditure savings start with salaries:

1. Determine average staff salary for each regional center as follows:

    — Total salary expenditure divided by total staffing;

    — Increase for inflation for FY 1988 and FY 1989.

2. Determine staffing ratios for each center from known staffing numbers.

3. Determine the needed staffing reductions for the units of each state regional center based on reductions in MR population over each year.

4. Based on needed staffing reductions, multiply average staff reduction each year by staffing costs for each center.

D. The result of determining the salary reduction is an estimate of savings in expenditure for the next biennium. Salaries are, however, made up of federal, state, and county dollars; and the state savings is only 43 percent of salary expenditures.

E. When staff positions are reduced, there is a corresponding cost for layoffs. The cost is made up of severance pay, unemloyment compensation, and health benefits. These figures are based on length of service, maximum unemployment compensation per person, and number of dependents.

F. When positions are reduced, not all people will be layed off. Some people will retire, take other state positions, or leave for other reasons; all these factors will influence actual number of persons who will receive layoff benefits.

G. Once these factors are taken into consideration, these costs must be subtracted from state salary savings to derive a net state savings. All layoff costs are assumed to be state dollars.

IV. CONCLUSIONS

A. The revenue side to cost savings is the weaker approach to take because of continued costs to the state with operation of state regional centers. It <u>overstates</u> savings.

B. The expenditure side to cost savings is a better approach, but it also misses some additional savings from costs that can be reduced with downsizing, such as utilities and food.

C. The state will have a pool of state and county dollars from downsizing that will need to go toward layoff costs, continued operation of state regional centers, and community programs.

D. For example, with state regional center per diems at $159.20 in FY 1987, the state's share of that cost is $66.06. If a person moves into a waivered slot, receiving residential services at a supported living arrangement and day services from a DAC, then state dollars toward those services would be:

SLA	$42.54	x .42	=	$17.87
DAC	$31.59	x .42	=	13.27
TOTAL				$31.14.

Additional state dollars would need to go for case management. Therefore, at <u>least</u> <u>half</u> the state dollars would have to go toward serving the person in the community. The figure is actually even higher when other waivered services are applied for.

E. In conclusion, the state does <u>not</u> have total dollar-for-dollar savings when persons move to the community because dollars are trapped at the state regional center level, used for layoff costs, and do not follow the person into the community.