

DEPARTMENT of Finance

Office Memorandum

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DATE: July 9, 1984

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ICF MR
 TO: Gordon M. Donhowe, Commissioner
 Tom Triplett, Director

FROM: Nellie Johnson
 Assistant Commissioner

PHONE: 6-5904

SUBJECT: Review of State Institutions - Biennial Budget

There are several issues important in the development of the biennial budget for the state hospitals.

The first issue concerns the medical assistance home- and community-based services waiver for the mentally retarded. The waiver formula, which has been approved by federal officials, includes assumptions that state hospital charges to medical assistance will be reduced appreciably for each year of the three-year waiver beginning July, 1984. How and whether these reductions can actually be effected relates directly to the closing or conversion of some portion of the state hospital system. Because the waiver began on July 1, the need to deal with it in relationship to state hospital bed capacity and future funding is pressing.

Specifically, the federal application for the Medical Assistance waiver promises to move mentally retarded people from more restrictive settings into less expensive community settings and to use the savings to provide clients with home- and community-based services. If the state does not realize the predicted savings, we risk federal withdrawal of waiver authority and the loss of M.A. reimbursement for the community services. If we lose the waiver, we could be obliged to fund a greatly expanded service system through total state funds.

Our waiver application predicts that, with the waiver, we can remove more clients from ICF/MRs than we could without the waiver, and generate savings as follows:

	<u>F.Y. 1985</u>	<u>F.Y. 1986</u>	<u>F.Y. 1987</u>
Bed Reductions Caused by Waiver	35	75	125
Annual Savings for Closed Beds	\$1,658,720	\$5,838,690	\$13,970,515

*Callen - Please review
 and arrange meeting
 with Heller, Gus, Levine
 and Johnson, Dean, &
 I me - Ray
 Aug 2-3.
 Thanks.
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The waiver formula assumes that a full per diem charge (about \$123) is saved for each day a client is removed from the state hospital under waiver provisions. Unless personnel costs are reduced, the actual savings from closing a bed at a state ICF/MR is less than \$3 a day (roughly \$1,100 a year). Therefore, we will have significant problems in meeting our federal waiver requirements unless significant action is taken to reduce personnel costs.

Most states designed their waiver around specific plans to close a state-run facility. While Minnesota did not, the arithmetic of the waiver formula implies that an institution will be withdrawn from use as an ICF/MR, if not closed, so that full per diem savings can be realized. Because the waiver is effective immediately, we need to make definite plans to achieve these savings, particularly in the next biennium.

Coupled with the population reduction due to the MA waiver, the Welsch vs. Levine Consent Decree requires additional MR population declines by 1987. These two factors would reduce the MR population in state hospitals from 2,180 in 1984 to 1,645 in 1987, a 25% decline.

While I recognize the state hospital study is focusing only on the mentally retarded, it will be important for us to develop the biennial budget in the context of our entire state hospital system. The Governor has repeatedly asked for alternatives to deemphasize inpatient care for the chemically dependent/mentally ill and any such initiatives will further reduce state institution populations. However, assuming no reduction in the CD/MI population, the following examples display the status of our institutions.

A. Impact of May, 1984 Census

<u>May, Occupied Beds</u>	<u>Utilized Beds*</u>	<u>Licensed Beds</u>
4,618	5,302	5,527
	87% Occupancy to Utilized Beds	83.6% to Licensed Beds

B. Impact of F.Y. 1987 Projected Population (MR Decline Only)

<u>1987 Occupied Beds</u>	<u>Utilized Beds*</u>	<u>Licensed Beds</u>
4,245	80% to Utilized Beds	76.8% to Licensed Beds

* Staffing patterns are based on utilized beds

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Because of the commitment to the federal government on the MR waiver as well as the Welsch court decision, we will need to take significant actions in the biennial budget to deal with these utilization issues. (In fact, the Department of Human Services must take immediate action to insure compliance with the federal waiver for this fiscal year.)

Our recommendations must be developed by the time of submission of the Governor's budget - January 20th. The state hospital study, while not in its final form till January 31, should provide us with valuable information on the issue, but it may not be the vehicle to deal with the magnitude of changes that will be necessary to comply with the federal waiver and other population declines.

We should discuss this issue further.

ES/NJ/MK/053

cc: Leonard Levine
Jay Kiedrowski
Nancy Feldman