M00M

Developmental Disabilities Administration

Department of Health and Mental Hygiene

Operating Budget Data

($ in Thousands)

	FY 14 Actual	FY 15 Working	FY 16 Allowance	FY 15-16 Change	% Change Prior Year
General Fund	$551,206	$566,780	$606,844	$40,063	7.1%
Deficiencies and Reductions	0	-4,132	-10,468	-6,336	
Adjusted General Fund	**$551,206**	**$562,648**	**$596,376**	**$33,728**	**6.0%**
Special Fund	3,038	3,720	6,504	2,784	74.8%
Deficiencies and Reductions	0	2,700	-6	-2,706	
Adjusted Special Fund	**$3,038**	**$6,420**	**$6,498**	**$78**	**1.2%**
Federal Fund	395,440	418,518	464,977	46,459	11.1%
Deficiencies and Reductions	0	818	-7,424	-8,243	
Adjusted Federal Fund	**$395,440**	**$419,336**	**$457,552**	**$38,216**	**9.1%**
Reimbursable Fund	25	27	33	6	20.6%
Adjusted Reimbursable Fund	**$25**	**$27**	**$33**	**$6**	**20.6%**
Adjusted Grand Total	**$949,710**	**$988,431**	**$1,060,459**	**$72,028**	**7.3%**

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- A January 2015 Board of Public Works action reduced the agency's general fund appropriation by $5.2 million, lowering the fiscal 2015 mid-year provider rate increase from 4% to 2% and eliminating funding for the nonoperational Community Services Reimbursement Rate Commission.

Note: Numbers may not sum to total due to rounding.

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- There are two proposed deficiencies for fiscal 2015: one to recognize funds collected from local governments for day services ($2.7 million in special funds); and one to cover consultant services needed to implement new financial management and reforms ($1.9 million in total funds).

- The fiscal 2016 allowance for the Developmental Disabilities Administration (DDA) increases by $72.0 million (7.3%) over the fiscal 2015 working appropriation, primarily due to expansion of services, a 1.75% provider rate increase, annualization of the fiscal 2015 expansion, and annualization of the fiscal 2015 mid-year 2% provider rate increase.

Personnel Data

	FY 14 Actual	FY 15 Working	FY 16 Allowance	FY 15-16 Change
Regular Positions	648.50	638.50	638.50	0.00
Contractual FTEs	16.60	28.02	23.77	-4.25
Total Personnel	**665.10**	**666.52**	**662.27**	**-4.25**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	43.29	6.78%
Positions and Percentage Vacant as of 12/31/14	38.00	5.95%

- The fiscal 2016 allowance includes 4.25 fewer contractual full-time equivalents. These positions were included in the fiscal 2014 budget for the purpose of supplementing the contractual services being provided by Alvarez and Marsal, an independent consulting firm. The agency advises that, although the positions were advertised and candidates were interviewed, no suitable candidates were found, and the agency ultimately determined that other staffing needs were of a higher priority. Accordingly, these positions were eliminated from the fiscal 2016 budget.

- The agency currently has 38.0 vacant positions and a vacancy rate of 5.95%. This is significantly lower than the previous year's rate of 9.95% and, in fact, lower than the vacancy rate necessary for the agency to meet turnover.

Analysis in Brief

Major Trends

Community-based Services Continue to Be the Agency's Preferred Model of Service Delivery: DDA aims to serve individuals in the community rather than in institutions. In fiscal 2014, 25,183 individuals were served in the Community Services Program within DDA. The agency expects that number to increase to over 27,573 by fiscal 2016. Meanwhile, the State Residential Centers' average daily population declined 74.7% between fiscal 2002 and 2014.

Population in Secure Evaluation and Therapeutic Treatment Units for Court-committed Individuals Remains Below Capacity: Both Secure Evaluation and Therapeutic Treatment Units (at Jessup and Sykesville) reached full capacity in fiscal 2011. After declining in both fiscal 2012 and 2013, the average daily population at both locations increased slightly in both fiscal 2014 but remains below capacity at both locations.

Waiver Enrollment Increases: The agency has, for the first time in its annual budget submission, reported the percentage of individuals receiving services through the Home and Community-based Services Waiver. From fiscal 2013 to 2014, waiver enrollment increased by 1.78% to 85.85%.

Issues

Structural Changes Still in Progress: When the inadequacy of financial oversight at DDA was first reported, the agency became focused primarily on stabilizing, rather than overhauling, operations. Major structural changes for the agency – including rate setting and payment system reform, financial system changes, and reorganization of operations – are now underway but still in the beginning stages.

The Medicaid Waiver and Community Rule Requirements: States must apply to the federal Centers for Medicare and Medicaid Services through a Home and Community-based Service waiver application to obtain permission to operate a waiver program. The department expects to issue a waiver amendment in spring 2015, as new federal Community Rule requirements take effect, to align services to comply with the new rule (as well as to implement other recommendations to improve the Community Pathways waiver). Maryland is required to submit a transition plan by March 17, 2015, as to how the State will adhere to the new rule and is currently seeking public comment and input on the transition.

Recommended Actions

		Funds
1.	Strike contingent language related to provider rate increase.	
2.	Reduce funds for a provider rate increase.	$ 16,418,691

3. Strike contingent language related to provider rate increase.

4. Strike contingent language related to provider rate increase.

Total Reductions	**$ 16,418,691**

Updates

Repeat Audit Findings: In the 2014 session, due to the number of repeat findings in DDA's most recent fiscal compliance audit, $250,000 of the agency's administrative appropriation was withheld until (1) DDA had taken corrective action with respect to all repeat audit findings; and (2) the Office of Legislative Audits (OLA) had submitted a report to the budget committees that each finding was corrected. To date, OLA has conducted a follow-up review of DDA's corrective actions, but its follow-up report to the committees has not yet been finalized.

M00M
Developmental Disabilities Administration
Department of Health and Mental Hygiene

Operating Budget Analysis

Program Description

A developmental disability is a condition attributable to a mental or physical impairment that results in substantial functional limitations in major life activities and is likely to continue indefinitely. Examples include autism, blindness, cerebral palsy, deafness, epilepsy, mental retardation, and multiple sclerosis. The Developmental Disabilities Administration (DDA) provides direct services to developmentally disabled individuals in two State Residential Centers (SRC) and through funding of a coordinated service delivery system that supports the integration of these individuals into the community. The State receives federal matching funds for services provided to the Maryland Medical Assistance Program (Medicaid) enrolled individuals (who make up the vast majority of individuals served by the agency).

Goals of the administration include:

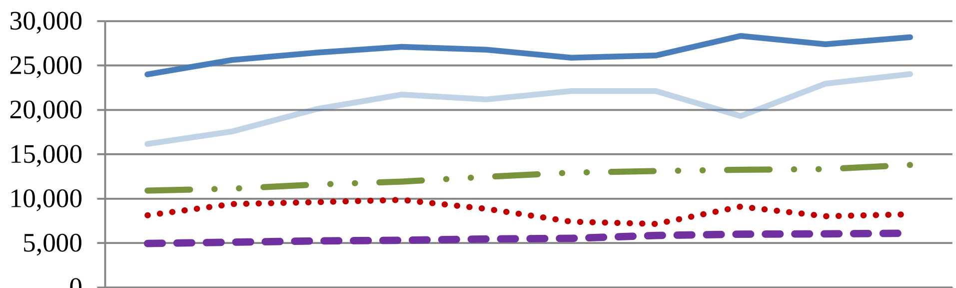
- empowerment of developmentally disabled individuals and their families;
- integration of developmentally disabled individuals into community life;
- provision of quality support services that maximize individual growth and development; and
- establishment of a responsible, flexible service system that maximizes available resources.

Performance Analysis: Managing for Results

1. Community-based Services Continue to Be the Agency's Preferred Model of Service Delivery

One of DDA's performance goals is to serve individuals in the community rather than in institutions. In fiscal 2014, 25,183 unique individuals were served in the Community Services Program within DDA. The agency expects that number to increase to over 27,573 by fiscal 2016. The Community Services Program offers a variety of services to individuals, including residential, day, and support services. Examples of residential services include community residential services and individual family care, while examples of day services (which provide activities during normal working hours) include day habilitation services, supported employment, and summer programs. Finally, examples of support services include individual and family support, targeted case management, community supported living arrangements, and self-directed services. **Exhibit 1** shows the number of individuals receiving each of the major services. For purposes of this chart, targeted case management (formerly known as resource coordination) is shown separately from the support services category, as targeted case management is available to all individuals in the system.

Exhibit 1
Individuals Receiving Community Services
Fiscal 2005-2014



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Residential Services	4,973	5,095	5,249	5,315	5,474	5,550	5,849	5,990	6,040	6,107
Day Services	10,913	11,139	11,592	11,935	12,476	12,934	13,123	13,246	13,353	13,810
Support Services	8,120	9,403	9,614	9,860	8,844	7,405	7,171	9,115	8,011	8,259
Total Services (excl. TCM)	24,006	25,637	26,455	27,110	26,794	25,889	26,143	28,351	27,404	28,176
TCM	16,166	17,566	20,108	21,728	21,192	22,132	22,132	19,298	22,954	24,052

TCM: Targeted Case Management

Note: Duplicated count as individuals can be counted in multiple categories.

Source: Department of Health and Mental Hygiene

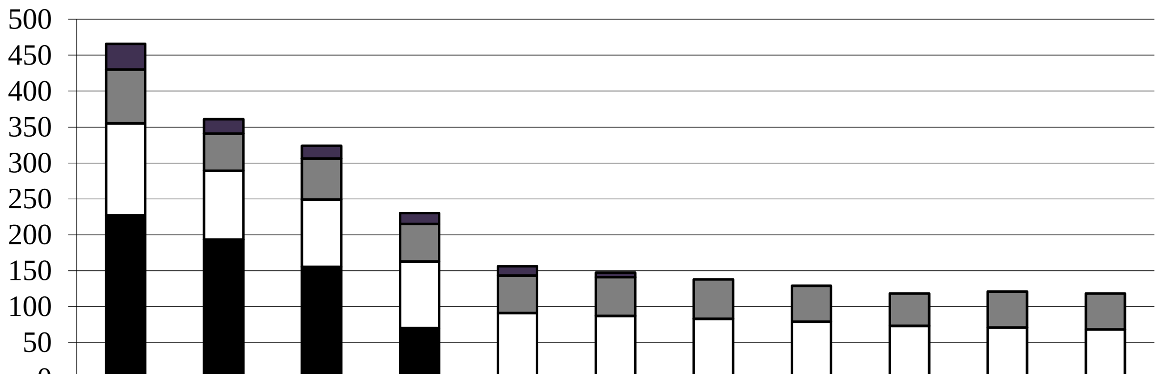
As Exhibit 1 shows, DDA provided residential services to 6,107 individuals, day services to 13,810 individuals, and support services to 8,259 individuals in fiscal 2014. (It should be noted that individuals receiving services through DDA may receive more than one type of service.) As shown in the exhibit, the number of support services decreased between fiscal 2008 and 2010 due to cost containment actions limiting general-funded support services. However, the number of individuals receiving support services increased sharply in fiscal 2012 due to the inclusion of individuals receiving services of short duration (as supported by one-time funding from the increase in the alcohol tax). The number of individuals receiving support services returned to historic levels in fiscal 2013 and increased slightly (3.1%) in fiscal 2014.

The number of individuals receiving targeted case management also returned to historic levels in fiscal 2013. In fiscal 2010, the Board of Public Works (BPW) reduced funding for targeted case management (then called resource coordination) by 15% on an ongoing basis. Subsequently, DDA modified its contracts to limit these services to individuals served in facilities, those receiving community-based services, and those in the highest category of the waiting list. DDA advises that this change continued to be felt in fiscal 2012, when the number of individuals receiving these services declined by 13% over the previous year. From fiscal 2012 to 2014, however, the number of individuals increased significantly (24.6%).

State Residential Centers

Part of DDA's mission is to serve individuals in the least restrictive setting possible. In most cases, this means serving individuals in the community instead of in institutional settings. As a result, the number of individuals served in SRCs is far fewer than the number of individuals served in the community. As shown in **Exhibit 2**, the average daily population (ADP) has steadily declined since fiscal 2005. In fact, ADP declined 74.7% between fiscal 2002 and 2014. This decrease is seen across all SRCs; however, the closure of the Rosewood Center in fiscal 2009 and the Brandenburg Center in fiscal 2011 account for a majority of the decrease.

Exhibit 2
Average Daily Population of State Residential Centers
Fiscal 2002-2016 Est.



	2002	2007	2008	2009	2010	2011	2012	2013	2014	2015 Est.	2016 Est.
Brandenburg	36	20	18	15	13	6	0	0	0	0	0
Potomac	75	52	57	52	52	54	55	50	45	50	50
Holly Center	128	96	94	93	91	87	83	79	73	71	68
Rosewood	227	193	155	70	0	0	0	0	0	0	0

Source: Department of Health and Mental Hygiene

As shown in the exhibit, in fiscal 2014, ADP for Potomac Center and Holly Center combined equals just 118 – less than ADP for Holly Center alone in fiscal 2002 (128) – raising the question of whether the operation of multiple SRCs continues to be necessary. The closure of one of these facilities would generate operating savings to be reinvested in community services (consistent with the agency's mission to serve individuals in community-based settings rather than in institutions) as well as offer potential for site redevelopment. However, many other factors – including, chiefly, accessibility and the impact to residents and staff – must also be considered. **The agency should brief the committees on the advisability of potentially consolidating the two remaining SRCs.**

2. Population in Secure Evaluation and Therapeutic Treatment Units for Court-committed Individuals Remains Below Capacity

Since fiscal 2009, DDA has served court-ordered individuals in specialized centers – called Secure Evaluation and Therapeutic Treatment (SETT) units – instead of in SRCs. Two SETT units are operated by DDA: one for evaluation and short-term treatment and one for treatment on a longer-term basis.

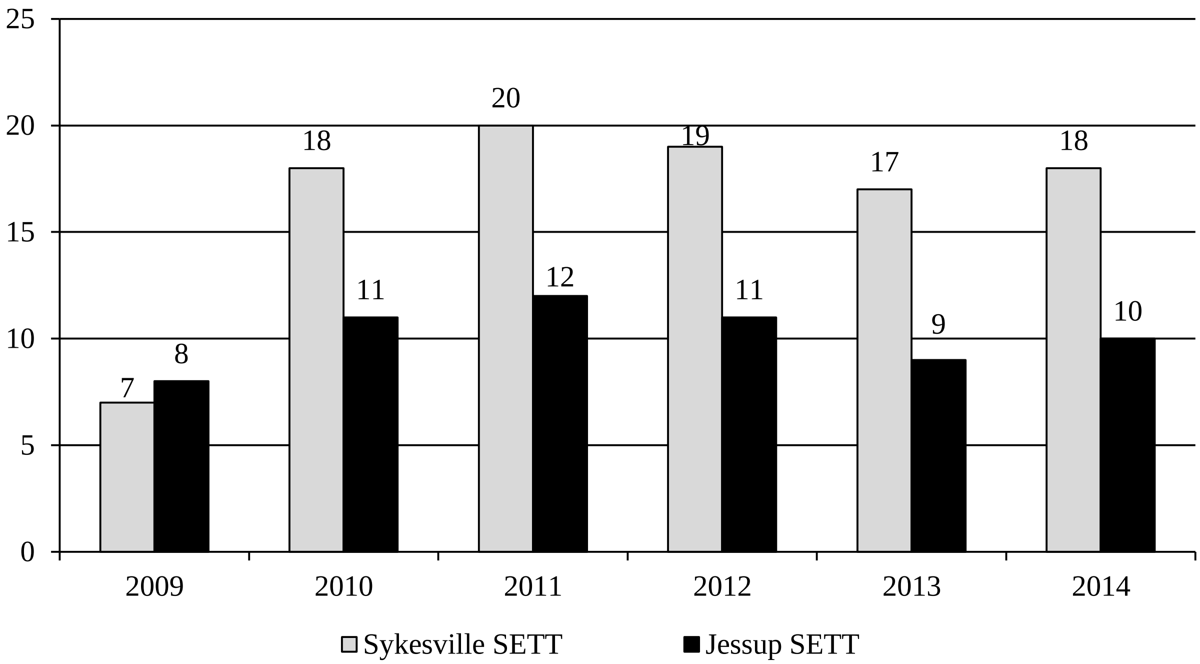
The evaluation and short-term treatment unit is a secure facility located on the grounds of the Clifton T. Perkins Hospital in Jessup. This unit houses a maximum of 12 individuals for 21 to 90 days. During the evaluation phase, DDA completes competency and behavioral evaluations and develops individual, comprehensive service plans.

The longer-term therapeutic treatment facility is also a secure facility located on the grounds of Springfield Hospital in Sykesville. This unit has capacity for 20 individuals who have been appropriately identified through evaluation at the Jessup unit.

Exhibit 3 shows the ADP of each unit. As the chart demonstrates, both SETT units were at full capacity in fiscal 2011. However, the ADP at both locations declined slightly in both fiscal 2012 and 2013. The agency advises that this is a result of increased efforts to serve a greater number of individuals in the community.

DDA previously received capital funding to begin planning and design of a new, consolidated SETT unit to replace both existing units, and had advised that the renovation and consolidation of the Sykesville Unit would provide sufficient residential and program space to effectively provide secure evaluation and therapeutic treatment. However, the agency is currently reevaluating its plans for this project. A more in-depth discussion of capital funding for the SETT unit will be included in the Department of Health and Mental Hygiene (DHMH) Capital Overview.

Exhibit 3
Average Daily Population of SETT Units
Fiscal 2009-2014



SETT: Secure Evaluation and Therapeutic Treatment

Source: Department of Health and Mental Hygiene

3. Waiver Enrollment Increases

Another performance goal for DDA is to increase the percentage of individuals receiving services through the Home and Community-based Services Waiver. **Exhibit 4** shows the percentage of individuals enrolled in the waiver. As shown, waiver enrollment increased by 1.78% from fiscal 2013 to 2014.

The agency's latest Managing for Results submission is the first in which the agency has provided this data. The agency's newly established goal with respect to waiver enrollment is to increase the percentage of individuals enrolled in the waiver by about 0.3% in each of the next two fiscal years.

Exhibit 4
Individuals Enrolled in DDA's
Home and Community-based Services Waiver
Fiscal 2013-2016 Est.

	2013	2014	2015 Est.	2016 Est.
Individuals in Waiver	84.35%	85.85%	86.12%	86.38%
Increase Over Previous Year	n/a*	1.78%	0.31%	0.30%

*The agency did not report waiver enrollment prior to its latest budget submission.

DDA: Developmental Disabilities Administration

Source: Department of Health and Mental Hygiene

Fiscal 2015 Actions

Proposed Deficiencies

There are two proposed deficiencies for fiscal 2015: one to recognize funds collected from local governments for day services ($2.7 million in special funds); and one to cover consultant services needed to implement new financial management and reforms ($1.9 million in total funds). DDA's contract with Alvarez and Marsal (A&M) for operational and day-to-day support expires in June 2015 and is not expected to be extended now that DDA has hired a Chief Financial Officer and Deputy Chief Financial Officer.

It should also be noted that, as detailed in the Office of Legislative Audits' fiscal 2014 *Statewide Review of Budget Closeout Transactions*, DHMH has an unreported liability to the federal government. As reported in the 2014 session, DHMH is liable to the federal government for approximately $20.6 million for disallowed claims related to DDA residential services. During the fiscal 2014 closeout process, DDA encumbered $6.9 million in general funds to make the first of three annual payments to return funds for the disallowable claims. (It should be noted that no payments will be made until DHMH receives a disallowance letter from the federal government). The remaining liability, totaling $13.7 million, was not reported as part of the budget closeout process. However, the General Accounting Division of the Comptroller of Maryland recorded a decrease to the general fund in the State's fiscal 2014 *Comprehensive Annual Financial Report* to recognize these disallowances.

Cost Containment

In July 2014, BPW withdrew $77.1 million in appropriations and abolished 61 positions statewide as fiscal 2015 cost containment. DDA's share of the reduction was $8.1 million in general funds, representing the following specific reductions:

- $2.7 million to correct underbudgeted special fund revenues collected from local governments for day services;
- $2.5 million to reflect actual utilization of support coordination services and ramping up of a fee-for-service model;
- $1.6 million to reflect changes in resource coordination that resulted in more services being eligible for a federal match and improved federal claiming for behavioral support services;
- $1.0 million to reflect additional individuals reapplying, and being deemed eligible for, the federal waiver; and
- $250,000 in assumed savings from utilization review.

In January 2015, BPW reduced the agency's general fund appropriation by another $5.2 million, lowering the fiscal 2015 mid-year provider rate increase from 4% to 2% and eliminating funding for the nonoperational Community Services Reimbursement Rate Commission. In addition, DHMH received a 0.6% across-the-board general fund reduction totaling $25.4 million. If allocated proportionally, it would equal $3.4 million in this agency. **Exhibit 5** shows the overall impact of the cost containment actions on the fiscal 2015 appropriation.

Exhibit 5
Fiscal 2015 Reconciliation
($ in Thousands)

Action	Description	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Legislative Appropriation with Budget Amendments		**$574,830**	**$3,720**	**$418,518**	**$27**	**$997,095**
July BPW	Savings from utilization review, increased waiver eligibility, increased federal fund attainment, support coordination services, and special fund revenue from local governments.	-8,050	0	0	0	-8,050

Action	Description	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Working Appropriation		**$566,780**	**$3,720**	**$418,518**	**$27**	**$989,045**
January BPW	Provider rate increase reduced from 4% to 2%; funding for nonoperational rate setting commission eliminated.	-5,237	0	0	0	-5,237
January BPW Across the board	This unit is part of the Department of Health and Mental Hygiene, which received a 0.6% across-the-board general fund reduction totaling $25.4 million. If allocated proportionally, it would approximate $3.4 million in this program.					
Deficiency Appropriations		1,104	2,700	818	0	4,623
Total Actions Since January 2015		***-$4,132***	***$2,700***	***$818***	***$0***	***-$614***
Adjusted Working Appropriation		**$562,648**	**$6,420**	**$419,336**	**$27**	**$988,431**

BPW: Board of Public Works

Source: Department of Legislative Services

Proposed Budget

As shown in **Exhibit 6**, after adjusting for cost containment deficiency appropriations, and contingent reductions, the fiscal allowance for DDA is $72.0 million (7.3%) over the fiscal 2015 working appropriation, primarily due to expansion of services, a 1.75% provider rate increase, annualization of fiscal 2015 expansion of services, and annualization of the fiscal 2015 mid-year 2% provider rate increase. General fund support increases by $33.7 million (6.0%), while federal support increases by $38.2 million ($9.1%).

Exhibit 6
Proposed Budget
DHMH – Developmental Disabilities Administration
($ in Thousands)

How Much It Grows:	**General Fund**	**Special Fund**	**Federal Fund**	**Reimb. Fund**	**Total**
Fiscal 2014 Actual	$551,206	$3,038	$395,440	$25	$949,710
Fiscal 2015 Working Appropriation	562,648	6,420	419,336	27	988,431
Fiscal 2016 Allowance	596,376	6,498	457,552	33	1,060,459
Fiscal 2015-2016 Amt. Change	$33,728	$78	$38,216	$6	$72,028
Fiscal 2015-2016 Percent Change	6.0%	1.2%	9.1%	20.6%	7.3%

Where It Goes:	
Personnel Expenses	
Increments and general salary annualization (prior to cost containment)	$1,483
Employee and retiree health insurance	752
Employee retirement contribution	482
Other fringe benefit adjustments	112
Social Security contributions	95
Turnover expectancy	-336
Section 20: 2% salary reduction	-691
Section 21: elimination of employee increments	-789
Other Changes	
Fiscal 2016 expansion of services	25,175
Annualization of fiscal 2015 expansion of services	21,871
Annualization of fiscal 2015 mid-year provider rate increase (2.0%)	18,321
Fiscal 2016 provider rate increase (1.75%)	16,419
Program direction	-1,907
Removal of one-time deficiency to recognize funds from local governments	-2,700
Individual family care and family support services	-5,834
Other	-426
Total	**$72,028**

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

In fiscal 2016, the Administration proposes a rate increase for community providers from 3.5% to 1.75%, resulting in savings of $9.2 million in general funds (and $16.4 million in total funds). This action is contingent on the Budget Reconciliation and Financing Act (BRFA) of 2015. In addition, the Administration has implemented several across-the-board reductions. This includes elimination of employee increments and a 2.0% salary reduction. The agency's share of these reductions are $789,109 and $690,710, respectively. The Administration has also implemented a general 0.6% across-the-board reduction for DHMH totaling $27.2 million. The implications for DDA are unknown but, if allocated proportionally, that reduction would equal $3.6 million.

Personnel Expenses

Personnel expenses for DDA increase by $1.1 million over the fiscal 2015 working appropriation. Outside of general salary actions, the budget increases by $752,000 for employee and retiree health insurance and by $482,000 for employee retirement.

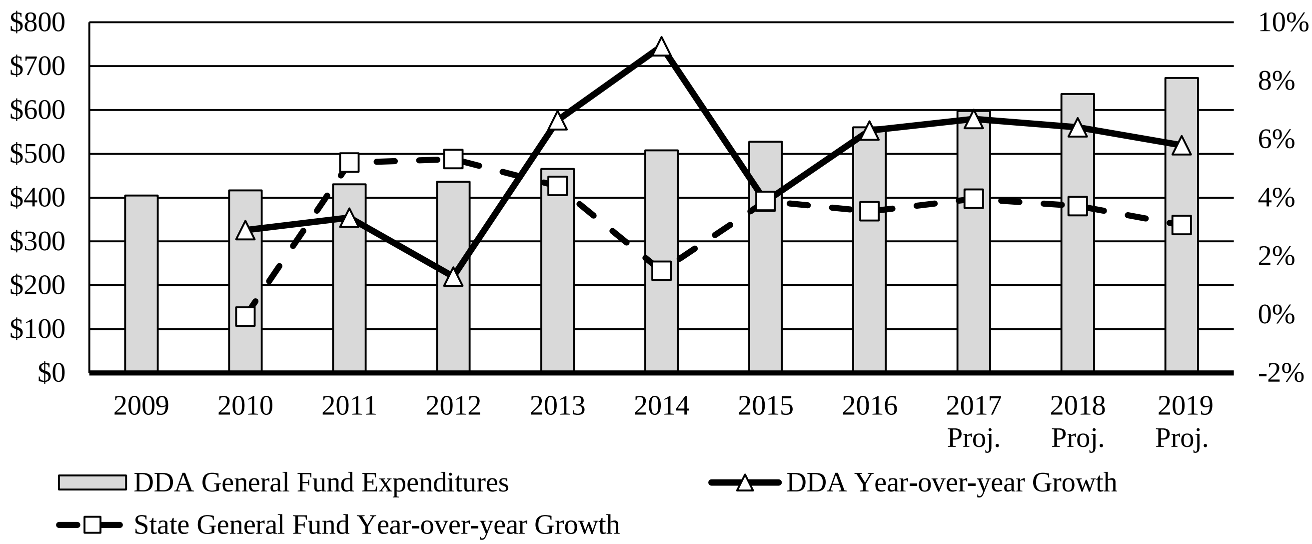
It should be noted that, despite a slight decrease in the most recent actual vacancy rate, budgeted turnover decreases by an additional $336,000 in fiscal 2016 due to higher personnel costs and an expectation that the current vacancy rate is historically low and not sustainable.

Community Services

Serving individuals in the community rather than in institutionalized settings continues to be the model of service delivery pursued by DDA. Accordingly, the Community Services Program (by far the largest arm of the agency) has experienced significant budgetary growth in recent years and continues to grow in fiscal 2016. **Exhibit 7** shows general fund growth in the program compared with general fund growth statewide. After far exceeding the rate of statewide general fund growth in fiscal 2013 and 2014, the agency's general fund growth rate approximates that of the State in fiscal 2015 (after cost containment actions noted above). General fund growth in the program again outpaces statewide growth in fiscal 2016 and is projected to continue to do so through fiscal 2019 due to statutorily mandated 3.5% annual provider rate increases that generally exceed projected growth in general fund revenues.

It should be noted that Section 13 of the BRFA of 2014 would limit the percentage funding increases in an appropriation that is required by statue to the rate of growth in general fund revenues, less 1.0% – in which case formula rate increases would be limited to 3.0% in fiscal 2017, 2.7% in fiscal 2018, and 2.1% in fiscal 2019. **Exhibit 8** shows estimated provider rate increases as mandated under this provision compared with provider rate increases as mandated under Chapter 262 of 2014, 3.5% increases through fiscal 2019. As demonstrated in the exhibit, the provision would result in considerable savings, particularly in the later years. It should be noted that the amounts above assume fiscal 2016 contingent reductions and can be expected to increase to the extent that such reductions are not taken.

Exhibit 7
General Fund Growth in Community Services Compared with the State
Fiscal 2009-2019 Projected
($ in Thousands)



DDA: Developmental Disabilities Administration

Source: Department of Budget and Management; Department of Legislative Services

Exhibit 8
Estimated Provider Rate Increases – Total Funds
Fiscal 2017-2019
($ in Millions)

	Provider Rate Increase under Chapter 262 of 2014		Estimated Provider Rate Increase under Section 13 of the BRFA of 2015		
	Percentage	**Amount**	**Percentage**	**Amount**	**Savings**
2017	3.5%	$35.0	3.0%	$30.0	$5.0
2018	3.5%	38.0	2.7%	29.2	8.8
2019	3.5%	41.2	2.1%	24.5	16.7

BRFA: Budget Reconciliation and Financing Act

Note: Estimated provider rate increases are based on the most recent projections of general fund growth in fiscal 2017 through 2019.

Source: Department of Legislative Services

In fiscal 2016, increased expenditures for the Community Services Program include expansion of services ($25.2 million), annualization of the fiscal 2015 expansion ($21.9 million), a 1.75% rate increase for community service providers ($16.4 million), and annualization of the fiscal 2015 mid-year provider rate increase ($18.3 million).

Fiscal 2016 Expansion

As shown in Exhibit 6, the budget includes an additional $25.2 million for the expansion of services in fiscal 2016. Expansion funds will be spent as follows:

- **$10.7 Million for Requests for Service Change:** Individuals enrolled in one of DDA's Medicaid waiver programs can at any time request an increase or decrease in services.[1] The fiscal 2016 budget includes $10.7 million in funding for requests for service change.

- **$10.7 Million for Transitioning Youth Program:** The Transitioning Youth Program identifies individuals graduating from the public school system, nonpublic school placements, and the foster care system, who are eligible for DDA services such as supported employment. The program is intended to ease the transition of such individuals into the DDA system. In fiscal 2016, DDA expects to serve 685 additional individuals through the program.

- **$2.4 Million for Costs Associated with Emergency Services:** Emergency services are provided when an individual becomes homeless, the caregiver of an individual dies, or any other situation arises that threatens the life and safety of the individual. The budget estimates that DDA will provide residential and day services to approximately 63 additional individuals in emergency situations in fiscal 2016.

- **$429,000 for Court Involved Placements:** DDA is charged with serving individuals identified through the court system in either a community placement or at one of the SETT units. In fiscal 2016, DDA expects to serve 13 court-referred individuals in community settings.

- **$930,000 for Waiting List Equity Fund Placements:** The Waiting List Equity Fund is supported through a State income tax check-off, investment earnings from the sale of properties owned by DDA, and savings associated with the movement of an individual from institutional care to community care. Special funds dedicated to the expansion of services for individuals on the waiting list account for $394,000 of this total, which is estimated to provide 28 additional individuals with residential services by the end of fiscal 2016. It should be noted that the agency

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[1] Individuals enrolled in the Medicaid waiver program are entitled to a review of their current services and needs at least once annually. Should circumstances change during the course of the year, individuals may also submit a request for service change to the DDA regional office. The agency reviews such requests, along with any supporting documentation, in order to make its determinations. If a request is denied, a letter explains the individual's right to appeal and an explanation of the appeal process. Individuals receiving services through general funds only are offered the same review process but are not guaranteed any additional services should they be deemed warranted. For these individuals, any additional service or service change is subject to the availability of funds in DDA's Community Services Program.

failed to utilize $900,290 in Waiting List Equity Funds (its entire fiscal 2013 appropriation of those funds) in fiscal 2013 due to an accounting error. In fiscal 2014, the agency again failed to utilize a significant portion of these funds – this time, purposefully cancelling $500,110 in Waiting List Equity Funds in an effort to control out-year costs. (These special funds can be used only to fund an individual's first year of placement into services; general funds must be used to fund the annualized costs of these services in the out-years.) Unused Waiting List Equity Funds can be carried forward to serve individuals on the waiting list in future years. **Particularly because the fiscal 2016 expansion, unlike prior expansions, does not include additional funding for crisis services, the agency should brief the committees on its plans for utilizing Waiting List Equity Funds to serve individuals on the waiting list.**

These increases are offset by a $2.7 million decrease representing the removal of a one-time special fund deficiency (as previously discussed) as well as decreases in individual family care and family support services totaling $3.5 million and $2.3 million, respectively. The agency advises that a review of its existing contracts for these services revealed that they did not align with the agency's current service delivery model. In light of budgetary constraints, the agency decided to eliminate these contracts. **The agency should brief the committees on if/how it will provide the type of services that were historically provided under these contracts.**

Rate Increases for Community Service Providers

Chapters 262 of 2014 mandated 3.5% provider rate increases in fiscal 2016 through 2019; as discussed previously, a contingent reduction halves the fiscal 2016 increase to 1.75%. The fiscal 2016 allowance includes $16.4 million to fund this increase. This action is in contrast to other health care providers (Medicaid and mental health community providers) for whom the fiscal 2016 allowance cuts rather than increases rates, generally re-basing them to fiscal 2014 levels. In addition, the budget includes $18.3 million to reflect the annualization of the 2% mid-year provider rate increase that was provided in fiscal 2015.

It should be noted that Chapter 648 of 2014, along with requiring DDA to conduct an independent study to set provider rates for community-based services, also established certain requirements with respect to wages paid by providers to direct support employees. Specifically, DHMH must report to the General Assembly by December 15, 2015, summarizing the range of total funding (based on wage surveys required to be submitted by providers) spent by providers on direct support employee wages and benefits, as a percentage of total operating expenses for fiscal 2014. Beginning in fiscal 2015 (and before the earlier of either the implementation of a new DDA payment system or the end of fiscal 2019), the percentage of a community provider's total reported operating expenses that is spent on direct support wages and benefits for a fiscal year may not be less than the percentage that was spent in fiscal 2014. If DHMH determines that this requirement is not met (and does not find mitigating circumstances or accept a plan of correction), the department must recoup funds from a community provider that have not been expended as required.

These accountability provisions were contingent on passage of the Maryland Minimum Wage Act of 2014 (enacted as Chapter 262), and were intended to ensure that the relatively high annual provider rate increases established by Chapter 262 were, in fact, used to fund wage increases for direct support workers. However, in light of cost containment actions (discussed above) that halved provider rate increases in fiscal 2015 and (contingent on legislation) in fiscal 2016, providers have expressed concern that these provisions may prove overly restrictive. Moreover, fiscal 2014 is likely no longer an ideal base year for comparison in that it does not immediately precede a fiscal year in which providers received a rate increase as contemplated by Chapter 262. **The agency should brief the committees on how it intends to enforce the accountability provisions in Chapter 648 of 2014 in light of recent adjustments to provider rate increases.**

Annualization Costs Associated with Placements in Fiscal 2015

Annualization costs result from the expansion of services in the previous fiscal year and account for $21.9 million of DDA's spending in fiscal 2016. Individuals come into services at different times during the fiscal year; when an individual is placed in the community services for the first time in fiscal 2015, annualized costs of servicing that individual in fiscal 2016 are included as part of the base of services.

Other Costs

Nonpersonnel costs for program direction decrease by $1.9 million, primarily due to decreased contractual expenses. As noted previously, DDA's contract for consulting services focused on operational and day-to-day support expires in June 2015 and is not expected to be extended.

Issues

1. Structural Changes Still in Progress

Several years after the inadequacy of financial oversight at DDA was first reported, the agency has initiated significant structural changes; however, most of these changes are still in progress or only beginning. Initially, the agency was forced to focus on stabilizing, rather than overhauling, operations. Since operations have been stabilized and key staff have been hired, significant changes are underway.

Rate Setting and Payment System Reform

One overhaul still in its infancy is rate setting and payment system reform. The Department of Legislative Services has long cited inherent weaknesses in DDA's current payment system, which is prospective in nature; that is, the system estimates the costs that a provider will incur in the coming fiscal year to serve its clients. DDA pays these costs to providers upfront (before the services are actually provided). Providers then submit documentation of their expenses and, at the end of the year, providers and DDA use audited cost reports to reconcile actual costs with the prospective payments. If actual costs were less than the prospective payments, a provider must reimburse DDA; conversely, if actual costs were greater than the prospective payments, DDA must reimburse the provider. The prospective nature of DDA's provider payment process makes budget forecasting more difficult. Because payments are issued one quarter in advance, payments may differ from actual expenses. Inevitably, DDA will have overpaid or underpaid providers at the close of each year. It is not surprising that since the current system was adopted, DDA has encountered significant budgeting difficulties – resulting in significant surpluses (and, correspondingly, the reversion and/or cancellation of funds), as well as significant deficits.

Chapter 648 of 2014 required the department to conduct an independent rate setting study as a prerequisite to the development and implementation of a new prospective payment system. However, DDA reports that, due to delays in the procurement process, the agency is still reviewing requests for proposals to complete the study. The agency advises that it does not expect to have completed a contract for this project before May 2015. **Given what have already been significant delays in the process, the agency should advise the committees whether the timeframe for completion of the rate setting study by September 30, 2017, is still feasible.**

Financial System Changes

A&M, an independent consulting firm, was tasked by the agency to recommend draft specifications to solicit the modification or replacement of the agency's existing financial platform. The agency was also required to advise how the new system will address the major underlying inefficiencies in DDA's current system and to identify any barriers to adopting a new financial management system.

Ultimately, the Provider Consumer Information System (PCIS2) currently used by DDA was found to have significant weaknesses with regard to data, reporting, and system functionality. Weighing the relative benefits and disadvantages of modifying or replacing PCIS2, A&M ultimately recommended replacing the system with DHMH's Long Term Supports and Services Tracking System (LTSS), an integrated care management tracking system currently used by multiple waiver programs and Community First Choice. A&M highlighted the desirability of utilizing a departmentwide system to support all of DHMH's waiver programs and streamline interactions between programs. A&M further advised that implementing LTSS is a less expensive option than either enhancing PCIS2 or developing a new DDA system.

Furthermore, of the options examined by A&M, LTSS is expected to offer the greatest ability to support A&M's key recommendation regarding billing and payment process options; namely, the direct submission of Medicaid claims by providers to the Maryland Medicaid Management Information System (MMIS) for payment processing. Currently, invoicing and payment activity is separate from DDA generation of Medicaid claims. A&M advised that the leveraging of existing DHMH investments in LTSS and MMIS – in coordination with reengineered processes – will improve fiscal controls, increase transparency, and reduce DDA's liability for uncollected federal funds.

A&M identified a number of system dependencies and timeline considerations impacting the adoption of a new financial management system. Chief among these was the completion of a rate setting study, as described previously. Because the rate setting study is not required to be complete until September 30, 2017, A&M advised that a dual-operating environment will likely be required for a period of time, as nonpayment functionality is migrated to LTSS in advance of the study's completion. A&M reported that, with LTSS as the selected option, a plan to support the implementation of the system (as well as the immediate relief of PCIS2) will be developed. This project has been budgeted in the Medicaid program, and will be discussed in more detail in the analysis for that agency.

Agency Reorganization

In addition to hiring a number of key staff, DDA has implemented a new organizational structure in its headquarters that is designed to increase focus on program leadership, provider relations, and quality. With that realignment recently completed, the agency has now turned its attention to standardizing operations at its four regional offices (each of which currently has a different organizational structure). The agency intends to have a new organizational plan for the regional offices approved by the beginning of fiscal 2016.

2. The Medicaid Waiver and Community Rule Requirements

States must apply to the federal Centers for Medicare and Medicaid Services through a Home and Community-based Service waiver application to obtain permission to operate a waiver program. Approved waiver programs are required to be renewed every three to five years. The department expects to issue a waiver amendment in spring 2015 as new federal Community Rule requirements take effect, to align services to comply with the new rule (as well as to implement other recommendations to improve the Community Pathways waiver). The purpose of these requirements is to ensure that individuals receive community services that are integrated with, and support full access to, the greater community. This includes opportunities to seek employment and work in competitive and integrated settings, engage in community life, control personal resources, and receive services in the community. For example, the new federal rules will require all states to ensure that:

- settings are selected by individuals from among various options;
- each individual is supported in making life choices;
- settings ensure an individual's right to privacy, dignity, respect, and freedom from coercion and restraint; and
- each individual is given choices regarding services and providers.

New requirements for provider-owned or controlled residential settings are also established, including that:

- units or rooms must be a specific physical place, that is, the kind that could be owned or rented in a typical landlord-tenant agreement;
- individuals have privacy in their living or sleeping units, meaning that units have lockable doors and entrances (with only appropriate staff having keys to doors), individuals who share rooms have a choice of roommate in that setting, individuals can furnish and decorate their own units within the limits of the lease or agreement, and individuals control their own schedules (including access to food at any time);
- individuals can have visitors at any time; and
- the setting is physically accessible to the individual.

Maryland is required to submit a transition plan by March 17, 2015, on how the State will adhere to the new rule. DHMH is currently seeking public comment and input on the transition. **Although the Medicaid program has taken the lead on this issue, DDA is perhaps most significantly affected by the new requirements and should brief the committees on the status of its transition plan.**

Recommended Actions

1. Strike the following language from the general fund appropriation:

   ~~, provided that this appropriation shall be reduced by $9,152,894 contingent upon the enactment of legislation reducing the required provider rate increase to 1.75%~~

   Explanation: The fiscal 2016 budget bill as introduced includes a $9,152,894 general fund reduction to the Developmental Disabilities Administration Community Services program, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2014. This action strikes that contingent reduction.

	Amount Reduction	
2. Reduce the appropriation of the Developmental Disabilities Administration's Community Services program by $9,152,894 in general funds, $6,181 in special funds, and $7,259,616 in federal funds to recognize a reduction in provider rate increases from 3.5% to 1.75% as provided for in the Budget Reconciliation and Financing Act of 2015.	$ 9,152,894	GF
	$ 6,181	SF
	$ 7,259,616	FF

3. Strike the following language from the special fund appropriation:

   ~~, provided that this appropriation shall be reduced by $6,181 contingent upon the enactment of legislation reducing the required provider rate increase to 1.75%~~

   Explanation: The fiscal 2016 budget bill as introduced includes a $6,181 special fund reduction to the Developmental Disabilities Administration Community Services program, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2014. This action strikes that contingent reduction.

4. Strike the following language from the federal fund appropriation:

   ~~, provided that this appropriation shall be reduced by $7,259,616 contingent upon the enactment of legislation reducing the required provider rate increase to 1.75%~~

   Explanation: The fiscal 2016 budget bill as introduced includes a $7,259,616 federal fund reduction to the Developmental Disabilities Administration Community Services program, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2014. This action strikes that contingent reduction.

Total Reductions	**$ 16,418,691**
Total General Fund Reductions	**$ 9,152,894**
Total Special Fund Reductions	**$ 6,181**
Total Federal Fund Reductions	**$ 7,259,616**

Updates

1. Repeat Audit Findings

The Joint Audit Committee has requested that budget bill language be added for each unit of State government that has four or more repeat audit findings in its most recent fiscal compliance audit. Each such agency is to have a portion of its administrative budget withheld pending the adoption of corrective action by the agency and a determination by the Office of Legislative Audits (OLA) that each finding was corrected. In the 2014 session, due to the number of repeat findings in DDA's most recent fiscal compliance audit, $250,000 of the agency's administrative appropriation was withheld until (1) DDA had taken corrective action with respect to all repeat audit findings; and (2) OLA had submitted a report to the budget committees that each finding was corrected. To date, OLA has conducted a follow-up review of DDA's corrective actions, but its follow-up report to the committees has not yet been finalized. Accordingly, $250,000 of the agency's administrative appropriation has not yet been released.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Developmental Disabilities Administration
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2014					
Legislative Appropriation	$530,049	$4,246	$415,653	$25	$949,974
Deficiency Appropriation	28,509	0	493	0	29,001
Budget Amendments	555	0	99	0	654
Reversions and Cancellations	-7,907	-1,208	-20,805	0	-29,920
Actual Expenditures	**$551,206**	**$3,038**	**$395,440**	**$25**	**$949,710**
Fiscal 2015					
Legislative Appropriation	$574,302	$3,720	$418,473	$27	$996,522
Cost Containment	-8,050	0	0	0	-8,050
Budget Amendments	528	0	45	0	573
Working Appropriation	**$566,780**	**$3,720**	**$418,518**	**$27**	**$989,045**

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

The budget for DDA closed at $949.7 million, $0.3 million below the original legislative appropriation.

Deficiency appropriations increased the agency's budget by $30.0 in general funds and $606,215 in federal funds. Statewide negative deficiencies reduced DDA spending on employee and retiree health insurance, retirement reinvestment, and the creation of a new employee information system by $1.4 million in general funds and $113,385 in federal funds.

Budget amendments over the course of fiscal 2014 added $654,105 to DDA's budget. The fiscal 2014 budget included centrally budgeted funds for the 2014 cost-of-living adjustment (COLA) and salary increment increases for State employees, which resulted in the transfer of funds to DDA ($607,026 in general funds and $85,415 in federal funds). In addition, general funds increased by $26,953, and federal funds increased by $13,383 to realign the State Retirement administrative fee and Department of Information Technology services allocation appropriations within DHMH. However, general funds decreased by $623,434 due to the transfer of positions from the DDA Court Involved Service Delivery System to the newly created Behavioral Health Administration. General funds decreased by an additional $111,362 to transfer a position from DDA into the Office of the Secretary. Finally, general funds decreased by $250,903 to realign appropriations within DHMH.

At the end of the year, the agency reverted $7.9 million in general funds, which the agency attributes to lower than anticipated utilization of certain services and better than anticipated federal fund attainment in key service lines. However, $20.8 million of DDA's federal fund appropriation was also cancelled. In addition, $1.2 million of DDA's special fund appropriation was cancelled. Of this amount, $727,000 was related to prior year grant activity, and $500,100 represents unused Waiting List Equity Funds due to the agency's efforts to control out year costs, as described in the Proposed Budget section of this analysis.

Fiscal 2015

To date, the fiscal 2015 legislative appropriation for DDA has been reduced by $7.5 million, primarily due to a statewide cost containment action ($8.1 million in general funds). In addition, one budget amendment reduced DDA's general fund appropriation by $42,331 to reflect the transfer of 1 position to the Medical Care Programs Administration. However, these reductions are partially offset by an increase of $615,089 in total funds ($570,508 in general funds and $44,581 in federal funds) to reflect fiscal 2015 COLA and increments approved during the 2014 session but not included in the fiscal 2015 allowance.

Object/Fund Difference Report
DHMH – Developmental Disabilities Administration

Object/Fund	FY 14 Actual	FY 15 Working Appropriation	FY 16 Allowance	FY 15 - FY 16 Amount Change	Percent Change
Positions					
01 Regular	648.50	638.50	638.50	0.00	0%
02 Contractual	16.60	28.02	23.77	-4.25	-15.2%
Total Positions	**665.10**	**666.52**	**662.27**	**-4.25**	**-0.6%**
Objects					
01 Salaries and Wages	$ 43,004,751	$ 44,586,019	$ 47,174,371	$ 2,588,352	5.8%
02 Technical and Spec. Fees	1,326,493	1,735,173	1,373,737	-361,436	-20.8%
03 Communication	314,077	215,446	264,478	49,032	22.8%
04 Travel	56,732	60,372	59,372	-1,000	-1.7%
06 Fuel and Utilities	2,109,827	1,863,412	1,855,494	-7,918	-0.4%
07 Motor Vehicles	220,955	167,845	197,497	29,652	17.7%
08 Contractual Services	899,964,553	937,850,594	1,024,697,040	86,846,446	9.3%
09 Supplies and Materials	1,605,554	1,263,149	1,379,503	116,354	9.2%
10 Equipment – Replacement	102,140	4,732	45,929	41,197	870.6%
11 Equipment – Additional	45,557	11,234	0	-11,234	-100.0%
12 Grants, Subsidies, and Contributions	402,026	730,000	730,000	0	0%
13 Fixed Charges	556,911	557,100	579,775	22,675	4.1%
Total Objects	**$ 949,709,576**	**$ 989,045,076**	**$ 1,078,357,196**	**$ 89,312,120**	**9.0%**
Funds					
01 General Fund	$ 551,206,291	$ 566,780,141	$ 606,843,529	$ 40,063,388	7.1%
03 Special Fund	3,038,291	3,720,300	6,504,351	2,784,051	74.8%
05 Federal Fund	395,439,517	418,517,649	464,976,770	46,459,121	11.1%
09 Reimbursable Fund	25,477	26,986	32,546	5,560	20.6%
Total Funds	**$ 949,709,576**	**$ 989,045,076**	**$ 1,078,357,196**	**$ 89,312,120**	**9.0%**

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Appendix 2

Fiscal Summary
DHMH – Developmental Disabilities Administration

Program/Unit	FY 14 Actual	FY 15 Wrk Approp	FY 16 Allowance	Change	FY 15 - FY 16 % Change
01 Program Direction	$ 9,086,313	$ 8,526,677	$ 9,419,047	$ 892,370	10.5%
02 Community Services	900,098,362	939,508,069	1,026,845,967	87,337,898	9.3%
01 Services and Institutional Operations	17,546,364	17,785,245	18,792,502	1,007,257	5.7%
01 Court Involved Service Delivery	8,329,501	8,925,081	9,182,891	257,810	2.9%
01 Services and Institutional Operations	12,713,059	12,499,507	13,062,251	562,744	4.5%
01 Services and Institutional Operations	1,935,977	1,800,497	1,054,538	-745,959	-41.4%
Total Expenditures	**$ 949,709,576**	**$ 989,045,076**	**$ 1,078,357,196**	**$ 89,312,120**	**9.0%**
General Fund	$ 551,206,291	$ 566,780,141	$ 606,843,529	$ 40,063,388	7.1%
Special Fund	3,038,291	3,720,300	6,504,351	2,784,051	74.8%
Federal Fund	395,439,517	418,517,649	464,976,770	46,459,121	11.1%
Total Appropriations	**$ 949,684,099**	**$ 989,018,090**	**$ 1,078,324,650**	**$ 89,306,560**	**9.0%**
Reimbursable Fund	$ 25,477	$ 26,986	$ 32,546	$ 5,560	20.6%
Total Funds	**$ 949,709,576**	**$ 989,045,076**	**$ 1,078,357,196**	**$ 89,312,120**	**9.0%**

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.