

Date of Hearing: June 2, 2020

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

AB 2024 (Holden) – As Introduced January 29, 2020

Policy Committee: Human Services Vote: 8 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

**SUMMARY:**

This bill generally requires the Department of Development Services (DDS) to increase rates paid to regional center vendors for services and supports to persons with developmental disabilities to reflect changes in state minimum wage requirements. Specifically, this bill:

- 1) Increases the rates in effect for day programs, habilitation, transportation, support services, respite and other miscellaneous services by 3.33% for each \$1 increase in the state minimum wage, or by a prorated percentage for an increase that is not a whole number, based on the rates in effect on December 31 prior to the effective date of an increase in the state minimum wage.
- 2) Prohibits rate increases from applying to services for which rates are determined by entities other than the department or are usual and customary.

**FISCAL EFFECT:**

One-time costs of approximately \$30 million (GF) for fiscal year (FY) 2020-21, and costs of approximately \$60 million (GF) for FY 2021-22 and ongoing to adjust for scheduled statewide minimum wage increases through January 1, 2022. These costs may increase over time to the extent the state minimum wage is adjusted by the Consumer Price Index (CPI) after January 1, 2022, as required by current law.

**COMMENTS:**

- 1) **Purpose.** This bill seeks to better serve individuals with developmental disabilities by creating a uniform rate adjustment process for DDS service providers. Doing so responds to longstanding structural issues with DDS provider rates that have been exacerbated by recent increases in the state's minimum wage.
- 2) **Background.** California provides community-based services to approximately 369,000 persons with developmental disabilities and their families through a statewide system of 21 regional centers. While California's overall population has grown by less than one percent on average in recent years, and the number of births in the state is down, DDS caseload has grown by five percent on average in recent years.

Regional centers contract with and fund vendors to provide a variety of programs and support services to those with developmental disabilities. The rates paid to providers vary depending on the type of service and the type of provider. A large portion of rates are set by DDS or are

negotiated between a regional center and the provider. These rates are established based on historical cost statements, rate schedules, statutes or regulations. Over time rate-setting methodologies have proven to be complex and attempts to control budgetary increases have resulted in rate restrictions and freezes. According to the Legislative Analyst's Office (LAO):

These piecemeal changes made the rates overly complex, inequitable across similar providers, and hard to understand. In addition, there generally is common agreement that the current rate structure does not result in funding levels that align with the funding requirements of the DDS system.

- 3) **Recent Rate Study.** To address the problems with service provider rates (both the structure and level of rates), the Legislature approved \$3 million (GF) in 2016 for DDS to conduct a rate study over a three-year period. DDS contracted with health policy consultants, Burns and Associates, to conduct the study, the results of which were delivered in draft form on March 15, 2019, and in final form on January 10, 2020.

The rate models recommended by the study provide similar rates for similar services, allow for adjustments based on regional and other cost differences, and reflect rate levels necessary to meet service needs. Not factoring in the increased funding associated with 2019-20 supplemental rate increases, Burns and Associates estimated that if the rate models were fully implemented, DDS spending would increase \$1.8 billion in total funds (about \$1.1 billion GF) relative to 2019-20 spending. The Governor has not proposed implementing the rate models developed by Burns and Associates. Last year's budget actions increased funding for supplemental rate payments to certain providers, rather than implement the rate models.

- 4) **Minimum Wage.** SB 3 (Leno), Chapter 4, Statutes of 2016, increased the California state minimum wage over the course of several years. For employers with more than 25 employees, the minimum wage will increase by \$1.00 per hour every year until it reaches \$15.00 per hour in 2022, after which the minimum wage will be indexed to inflation. For employers with fewer than 25 employees, the increases have a one-year lag. In addition, there are 13 cities each with a local minimum wage requirement that is higher than the statewide minimum wage.

SB 3 (Leno) allows DDS and regional centers to adjust provider rates to meet increases in the state minimum wage. To that end, additional funding was provided to DDS through the annual budget act several times in recent years. However, SB 3 does not provide authorization to adjust rates to meet increases in a local minimum wage. In addition, because rates in the locales with a higher local minimum wage already pay more than the state minimum wage, these areas do not get adjustments for state minimum wage increases either. Because of this quirk in the law, 30 local areas were unable to access state funding associated with the January 1, 2020, state minimum wage increase from \$12 to \$13 per hour.

This bill seeks to address these issues by creating a simplified and equitable provider rate adjustment process, which also includes providers in areas with a local minimum wage.

- 5) **Prior Legislation.**

AB 279 (Holden), of the 2017-2018 Legislative Session, would have provided DDS and regional centers statutory authority to adjust rates for providers who operate where the local

minimum wage is higher than the state minimum wage. AB 279 was held on the Senate Appropriations suspense file.

AB2x1 (Thurmond), Chapter 3, Statutes of 2016, appropriated, among other things, \$287 million (GF) for increases to regional centers and community service providers in FY 2016-17, and imposed reporting requirements to ensure proper allocation of funds and program accountability.

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