

---

# HOW TO MANAGE IN AN ECONOMIC DOWNTURN



Nancy Thaler - Chas Moseley - Robin Cooper - Kara LeBeau

National Association of State Directors of Developmental Disabilities Services  
December 2008

---

## Budget Shortfalls - Déjà Vu All Over Again...

For some NASDDDS members, this may be the first time through the process of cutting budgets. Others we know are “old hands” at dealing with budget deficits and downturns. The 2008 economic crisis has hit states directly and hard. As of November 11, 2008, the [Center on Budget and Policy Priorities](#) reported that “Mid-year shortfalls totaling \$24.3 billion have opened up in the 2009 budgets of at least 41 states and the District of Columbia. Twenty-one states now project deficits for 2010. The median revenue decline is 5 percent among the 42 states that have released data for this quarter, after adjusting for inflation.”

State budgets are highly susceptible to fluctuations in the economy. High unemployment and a drop in retail sales result in lower corporate, sales, and income tax revenues. These revenue shortfalls have an impact on the capacity of states to meet the needs of individuals with developmental disabilities and their families. With constitutional requirements to balance annual budgets, states have few strategies to make up for revenue shortfalls. And to add to the difficulties, many states have spending limits mandated through referenda that curtail flexibility in allocating resources. Most state developmental disabilities agencies are experiencing increased pressure to restrain the rate of growth, while many have already been asked to implement budget cuts.

Recessions Are Not New. In the past 30 years, we have experienced recessions from July 1981 - November 1982; January 1990 - March 1991; and March 2001 - November 2001. (See Appendix A for a history of U.S. recessions.) During each of these recessions, state directors developed strategies to absorb budget cuts in ways that had as little impact as possible on people with disabilities and their families. A number of them shared their strategies and lessons learned during the Association’s 2002 Mid-Year Meeting, “Maintaining Momentum: Protecting Individual Community Supports When Budgets Are Cut.” During our recent 2008 Annual Conference Directors Forum, state directors brought their ideas and experiences to the fore again during a discussion of the current budget crisis.

---

The recession we are facing now may be one of the longer ones. The National Bureau of Economic Research confirmed that the current recession actually began in December 2007 and they warn, “this downturn [is] likely to set a new postwar record for length and is likely to be more painful than any recession since 1980 and 1982.”

This special report builds on the experiences of state directors and key agency staff shared during and after our recent annual conference. Many suggestions are basic good leadership tactics managers regularly engage in during both good and bad times. We offer this compendium of key elements and strategies as a reminder and guide to state agency directors currently facing hard decisions in their programs and departments at a time of exceptional economic challenge.

## **How to Approach Making Budget Cuts**

### **1. Lead! – “If you don’t, you’ll be following somebody else who is.”**

When the necessity to cut budgets is real and imminent, it is essential that the leadership of the DD system be alert to the times and take the lead in developing strategies, communicating the impact of any actions to cabinet officials and legislators, and opening up communication with all stakeholders. This leadership will increase the likelihood that DD agencies will be able to shape the nature and types of cuts, rather than having others make and impose their decisions on the DD program.

Stakeholders need to know that someone who understands their needs is in charge; political leaders will listen to managers who tackle problems head on and provide accurate and reliable information. In taking the lead, managers create opportunities to craft solutions that make sense for people with disabilities.

### **2. Maintain Open Communication with all Stakeholders.**

During times of confusion and intense worry, people hunger for information, says [Frank Fairbanks in \*Governing\* magazine](#). “Time and energy spent in communicating with [others] demonstrates to them that the organization cares. If they have no facts, [people] will make up rumors or cynical views of the organization. Less damage is likely to occur if the simple truth is communicated – even if the facts are painful.”

Provide information to all stakeholders (self-advocates, families, advocates, providers, etc.) about revenue sources and why there is a shortfall; the size of the program budget as compared to the overall state budget and the cost of services; and the process by which the amount of the cut to the program is determined – including the role of the legislature. It is critical to explain how decisions will be made, who will make those decisions, and what steps will be taken in making them. Develop a broad consensus in support of positive change and involve all stakeholders in the process of reducing service costs.

---

Initially, working with stakeholders may be contentious. Different constituencies may compete with each other to avoid cuts in their programs. The goal of communication is to enable stakeholders to understand the seriousness of the situation, trust the process, and contribute to the solutions. And it is best if self-advocates and families hear information directly from state agency officials, rather than from providers or others. As events unfold, solicit feedback from self-advocates, families, providers, and other stakeholders and remember to communicate, communicate, and communicate!

### **3. Preserve the Mission, Values, and Fundamental Goals of the Service Delivery System.**

When faced with the necessity to cut budgets, evaluate each option against your organization's mission and values. For instance, we know that families, a real job, and connections to others in the community are the cornerstones of a good life. These natural supports not only strengthen the quality of people's lives and enhance their growth and development, they also reduce the demand for more costly services. While the most logical action may at first seem to be preserving residential provider budgets and cutting home-based services (since families can't close their doors if their services are cut), this strategy can lead to crises for people living with their families and may even increase the demand for out-of-home services. In addition, families who witness budget cuts applied to individuals living with their families before providers may be far less willing to support their sons and daughters at home in the future for fear that they will be the first to lose services.

### **4. Identify and Maximize Resources.**

a. Maximize Federal Financial Participation (FFP). States vary widely in the extent to which they earn federal participation. According to [State of the States in Developmental Disabilities 2008](#)<sup>1</sup>, an average of 54% of the funds supporting DD programs on a national level is federal. Across the individual states, the percentage of federal funds ranges from 36% to 73%. The state's FFP rate is one factor that influences the amount of federal funds supporting the program. But each state has the option of directing state funds to programs that will earn FFP. States reserve state funds to cover individuals or services that are not Medicaid eligible, provide cash subsidies, or support programs that are far more flexible than Medicaid would permit.

Each state should evaluate its funding structure to determine whether there are general state funds supporting services or individuals that would be eligible for federal financial participation and whether, from a state policy point of view, it would be advisable to do so. Many states have instituted a "Medicaid mandate" requiring that individuals seeking community services apply for and maintain eligibility for Medicaid. This means states must closely watch individual income and assets to assure continued Medicaid

---

<sup>1</sup> David Braddock, et al. *State of the States in Developmental Disabilities 2008*. Boulder, CO: University of Colorado and Washington, DC: AAIDD, 2008.

---

eligibility. This should include intensive review of Medicaid State Plan services as well, particularly those supporting children under Early and Periodic Screening, Diagnostic, and Treatment (EPSDT).

b. Explore Resources in Medicare. Medicare is another source of supports that states have had difficulty in accessing. The Social Security Administration has discovered nationally that well over 460,000 applicants should have been enrolled in Social Security Disability Insurance. SSDI enrollment not only provides access to Medicare, but in many cases SSDI provides a higher level of income supports than Supplemental Security Income. Assuring that individuals are properly enrolled can reduce pressure on Medicaid budgets and, for some individuals, increase resources for personal expenses and room and board costs (see *Perspectives*, December 2008.)

c. Identify Alternative Programs or Funding Sources. States are reviewing whether the [Mental Health Parity Act](#) will cover children with autism spectrum disorder. In some states, legislation has been adopted to require private insurance carriers to cover services for children with autism spectrum disorders. States have not always been aggressive in the past about using private insurance and working with insurers to cover needed services.

## 5. Use Data to Make Decisions and Manage.

a. Analyze Cost Components of Services, Particularly in the Most Expensive Service Models. For instance, a review of staffing in every licensed home in one state found unnecessarily high staffing levels which led to developing a standard authorization for approving costs above the model funding. Analyzing the use of therapies against standard professional recommendations and evaluating whether consultative therapy (therapist trains consumer and caregiver) may be more effective and less expensive than frequent treatment by the therapist.

Other areas that may offer opportunities for efficiencies include:

- *Using claims data*: analyzing trends, patterns, and anomalies that suggest over-utilization;
- *Analyzing incident data and cost data* to determine whether there are correlations between incidents and costs, and develop remediation strategies; and
- *Reviewing data on staff turnover*. Strategies to reduce turnover can have an impact on costs and have the added benefit of potentially improving quality of services too.

b. Review Data with Providers. A strategy that can help ease the contentiousness of cuts is to fully bring the provider community into the data analysis and decision-making process. Ask – or perhaps even require – providers to review agency and or individual budgets to identify cost savings and make presentations to the state agency regarding the places where they can make cuts with the least negative impact.

---

c. Use Data to Communicate. Data is also important when informing others about the impact of service cuts in terms of the numbers of people affected, the types of services they will lose, the long-term impact of budget reductions on future care needs, the increased number of people in crisis or at risk of abuse and neglect, and the impact in each legislative district.

How data is presented is significant. One state director reported that providers requested that a 10% rate reduction be described as “funding at 90%” – which creates the expectation that the rate would be restored when times get better.

## **6. Increase Flexibility.**

a. Review Regulations, Policies, and Practices. While difficult to manage, periods of financial retrenchment do offer states opportunities to review regulations, policies, and operational practices to ensure that existing rules result in outcomes that add value to people’s lives without unnecessary costs. As an example, some states license settings even when it is the participant’s own home, adding to costs. Other states require intensive therapeutic and medical staff for residential programs when these services are otherwise available under the Medicaid State Plan.

b. Expand Self-Direction. During the past few years, several states have sought to reduce costs while improving support outcomes and individual satisfaction through the implementation of self-directed or self-determined services. For many, the impact of service reductions can be lessened by offering individuals and their families increased control over the dollars that are allocated on their behalf through individual budgets and opportunities for participant-directed services. Additional flexibility can be extended to providers to improve their ability to absorb the risk of increased costs by permitting them to shift unspent dollars between categories within and among individual budgets.

## **7. Implementing Cuts.**

a. State-Operated Services. Many states often decide to absorb cuts in the state’s administration cost centers and in state-operated facilities first. This is done by delaying hiring and through hiring freezes; consolidating units; eliminating staff positions; increasing direct care staff ratios in state facilities; laying off staff; and restricting staff travel.

When absorbing cuts at the state level, one state director advises careful consideration of the extent to which staff reductions are implemented, particularly in the administrative office. Administrative staff are essential to managing a system. Management becomes even more critical during times of stress. When the budget crisis is over, administrative staff are the most difficult to regain. With a program often under-administered already, careful consideration must be given to staff reductions.

---

b. Private Providers. After exhausting options in state-operated programs, states turn next to privately operated services. Beyond the strategies to give providers more flexibility and assistance to change their programs, it may be necessary to reduce their budgets.

- *Maintaining the "safety net."* The first rule when making budget cuts is to maintain the "safety net" to assure that vulnerable individuals are shielded from harm as budget cuts are formulated and implemented. This can be both a policy consideration and an individual consideration. Some services may be curtailed, but retained for more vulnerable individuals
- *Freezing expansion of community services* is a logical step to reduce costs without reducing existing services. Expanded services are generally intended to serve people on the waiting list. While extending their time on the waiting list is undesirable, admission into services that cannot be sustained is unwise.
- *Freezing admissions to programs* can create opportunities for service consolidation or service transformation to new and more cost-effective models. Instead of filling vacancies in a group home, explore shared living opportunities for the individuals remaining in the home or consider the possibility of individuals returning to their families with robust in-home supports.
- *Reducing rates.* States have implemented budget cuts to providers with flat rate reductions without any guidance or rules. While this gives providers flexibility, it may also result in unintended consequences such as cutting of direct care staff without concomitant reductions in administrative overhead or managerial salaries and benefits. Some states have implemented budget cuts with instructions to reduce overhead by a specific percentage or instructions to close vacancies.
- *Expanding case management ratios or reducing requirements for contact with each consumer.* Individualizing case management contacts based on the plan of care (with a "floor" requiring a minimum number of contacts to assure health and safety) can ease the burden of increased caseloads during economic downturns.
- *Meeting with each provider agency* to review their budgets and determine together what costs could be reduced, what services or activities could be reduced or eliminated, and whether program consolidation is possible. Budget reductions are then individually determined with each provider. This provides the state with supervision over the budget and an opportunity to guide the process while assuring that basic health and safety are not compromised.

It may prove beneficial to provide assistance to providers. Providers have differing levels of sophistication in financial and program management. Help them identify opportunities to reduce costs such as creating regional purchasing arrangements for insurance, administrative services, and supplies. Some may need assistance in securing lines of credit, reducing insurance costs, and

---

negotiating loans. Insolvency may be a threat to some providers. To avoid provider consolidations and the loss of small but valuable providers, the state may need to explore options such as taking over a provider or negotiating a merger with an organization the state chooses.

- *Exploring other strategies* such as redefining eligibility for services; instituting limits on the amount, frequency, and duration of specific services; eliminating certain services from the program; implementing prior authorization and utilization reviews; and using assessment processes to determine the level of funding for each service.

Regardless of the approach used, most states have found it advantageous to closely monitor the impact of the cuts as they work their way through the service delivery system. States may require providers to report periodically on the changes that are being made and/or perform separate assessments of the health and welfare of individuals receiving support and the extent to which they are able to access the supports and services identified in their individual support plans.

## **8. Recognize and seize opportunities.**

Tight financial times offer opportunities that might not otherwise be considered. Allow for **boldness** that might not have been possible in more “flush” times. During the Association’s annual meeting, Peter Harkness of *Governing* magazine repeated the comments of Michigan Governor Jennifer Granholm when she said, “A budget deficit is a terrible thing to waste.”

Changing systems from institutional models of service to truly integrated systems of support is generally difficult. Proposals to downsize or close large facilities, move to employment, expand home-based services, and use individual allocation methodologies can be met with opposition. The need to reduce the level of expenditures and maintain services for people demands that all services be reviewed to determine not only which are beneficial, but which are also most cost-effective.

Those that are not beneficial or cost-effective can more easily be considered for transformation when doing so protects services for people who would otherwise lose them. States often mention that there are individuals who are “over-supported” – served with intensive, 24/7 residential supports not based on their need for that level of support, but on the wishes of parents and guardians. Budget crises offer an opportunity to review individual levels of supports and can enable individuals to move into less intensively staffed settings when appropriate to their needs.

One state director commented that during a budget crisis, a number of state-operated facilities with high per diems were seriously being considered for downsizing, consolidation, and closure as cost-saving strategies. Budget shortfalls provide an

---

opportunity to review other state-operated services such as community residential programs with their typically higher staffing costs.

## **Position the Program for Future Years.**

We have been anticipating for some time that the growing national debt, the structural liabilities of Social Security, Medicare, and Medicaid, and state obligations to retirees would challenge federal and state budgets for the next decade. Change would have to come.

With a new administration in place, we can now anticipate initiatives to reform the country's health care system. Such reform will inevitably involve long-term supports. Services to people with disabilities are the most expensive services in Medicaid. People with DD compose 14% of Medicaid beneficiaries, yet consume 42% of the Medicaid budget.<sup>2</sup> This has not gone unnoticed and will become a growing factor in health care reform.

What we face today is that the 2008 financial crisis presents both an immediate problem and on-going concerns for the next few years. This is on top of a structural, long-term problem – growing waiting lists combined with our inability to fund or staff expansion of 24-hour residential programs. We know that we need to think long term as we work to respond to immediate problems. Our short-term solutions should be developed with the long-term challenges in mind.

This “longer view” means we must emphasize employment and self-sufficiency; reduce and eliminate large residential facilities; develop shared living services; create a system of robust supports for people living with their immediate and extended families; implement individual assessment and budgeting strategies; develop policies to pay relatives; and include consumer-directed support options in our programs.

Challenging times lie ahead and challenging times require strong leadership. State directors will be called upon to identify and implement solutions to what seems like insurmountable problems. The solutions to immediate difficulties must be developed so as to do as little harm as possible, measured against the principles and values of the program, and they should lay the foundation for a system that is affordable and sustainable in the future.

---

<sup>2</sup> Kaiser Commission on Medicaid and the Uninsured and Urban Institute. “Medicaid Enrollees and Expenditures by Enrollment Group, 2005” in *Kaiser Fast Facts*. Washington, DC & Menlo Park, CA: Henry J. Kaiser Family Foundation, 2008. See <http://facts.kff.org/chart.aspx?ch=465>.

## Appendix A.

Recessions of the 20th Century By CNBC.com | 04 Sep 2007

Date	Duration
Sept. 1902-Aug. 1904	23
May 1907-June 1908	13
Jan. 1910-Jan. 1912	24
Jan. 1913-Dec. 1914	23
Aug. 1918-March 1919	7
Jan. 1920-July 1921	18
May 1923-July 1924	14
Oct. 1926-Nov. 1927	13
Aug. 1929-March 1933	43
May 1937-June 1938	13
Feb. 1945-Oct. 1945	8
Nov. 1948-Oct. 1949	11
July 1953-May 1954	10
Aug. 1957-April 1958	8
April 1960-Feb. 1961	10
Dec. 1969-Nov. 1970	11
Nov. 1973-March 1975	16
Jan. 1980-July 1980	6
July 1981-Nov. 1982	16
July 1990-March 1991	8
March 2001-Nov. 2001	8

Source: NBER

© 2008 CNBC.com