The Stimulus Effects of Employment Programs for Minnesota's Disabled Citizens: A Case Study of Merrick, Inc.

C. Ford Runge
Distinguished McKnight University Professor of Applied Economics and Law
University of Minnesota

October 20, 2010

This briefing was prepared by the author and reflects his personal views and opinions, and not those of the University of Minnesota. Thanks to John Wayne Barker, Steve Eiken, Robert Greenbaum, Tom Stinson, and Craig Wieber for comments.

Introduction

Considerable discussion during state budget negotiations in the past few years has focused on human services programs for people with disabilities. During Governor Pawlenty's second term, cuts for Personal Care Assistants (PCA), combined with evidence of loose administration of PCA programs, led to reductions in support for citizens with disabilities. Throughout Minnesota, programs providing Long-Term Care (LTC) for this population were negatively affected.[1]

Using a day program as an example, this brief provides an alternative perspective that is often missing when "cost-cutting" has the upper hand: the tangible stimulus such programs provide. Although not a formal benefit/cost study, it describes the social dividends of employment programs for people with developmental disabilities. These dividends extend well beyond the services provided to recipients (hereinafter "clients"). Clients receive employment opportunities, wages, transportation, and supervision. But there are other dividends: wages to program staff; avoided costs of residential supervision; taxes paid by clients and staff; and state revenue from charitable gambling activities (most of which does not flow to the charitable gambling organization but to the state treasury). In addition, many of these programs seek to leverage state support by seeking grants supplementing state taxpayer dollars. Finally, the companies that employ people with disabilities through contracts with such programs do so both because of their civic concern and because it makes good business sense. In sum, public investments in day service programs for people with developmental disabilities produces nearly $3.00 of economic benefit for every $1.00 spent. These benefits actually help to reduce and offset the actual, unavoidable cost of the 24-hour long term care for persons with developmental disabilities. Apart from any humanitarian concern for the less fortunate, government cuts to such programs are penny-wise and dollar-foolish.

[1] See Minnesota Department of Human Services. 2010. "Minnesota's Long-Term Care Support System: Historical Perspective."

Long-Term Care: An Overview

In state fiscal year (SFY) 2008, federal, state, and local governments spent approximately $3.9 billion to provide LTC services to Minnesotans with disabilities and the elderly. In general, Federal Financial Participation (FFP) accounts for about 50 cents on the dollar of support matched by about 45 cents in State and 5 cents in County funds. Medicaid is the largest public payer ($3.3 billion, or about 85% of total public spending); and in SFY 2009, state spending totaled $3,016,000,000 after Pawlenty's 2009 "unallotments". It is important to understand that federal money equals state, and would not flow without state and county funding.[2] In 2007, there were a total of 622,740 people aged five and older in Minnesota who were disabled (13 percent of the population) [3] and many are cared for by family members and do not use LTC services. In 2005, an average of 27,750 people (1,859 ICFs/MR, 14,056 DD Waiver, 11,855 CADI) with developmental disabilities were served on a monthly basis. [4]

State expenses to provide needed care for these citizens have led recent state government briefings offer policy alternatives that reflect a narrow focus on cost-cutting. One recent briefing, titled *"The Challenge: Sustainable Health Care Systems,"* a slide entitled "How Can We Made (sic) Ends Meet?" offered the following:

- Reduce caseload and enrollment
  - Tighten program eligibility
  - Increase fees
  - Impose enrollment caps
- Reduce the average cost per person (benefits)
  - Restrict benefit and its use
- Reduce service rates or increase limits

This perspective ignores many of the benefits of LTC programs. In what follows, data from one such program, Merrick, Inc., with a July through June Fiscal Year (FY) are analyzed as a case study.

---

[2] Minnesota Department of Human Services, data chart 09/22/2009.
[3] Eiken, S., L. Gold, S. Larson and K.C. Lakin. 2009. "Minnesota State Profile Tool: An Assessment of Minnesota's Long-Term Support System." December 3, Table 1.4, p. 11.
[4] Eiken, S., L. Gold, S. Larson and K.C. Lakin. 2009. "Minnesota State Profile Tool: An Assessment of Minnesota's Long-Term Support System." December 3, Table 2.2, p. 15.

Merrick, Inc.

Merrick, Inc., is a private, non-profit 501(c)(3) corporation, licensed by the Minnesota Department of Human Services (DHS) as an Adult Day Services (ADS), Day Training & Habilitation (DT&H), and Supported Employment Services (SES) provider. Located in Vadnais Heights, Minnesota, it serves over 350 adult clients, employing 153 professional staff, managing a fleet of 64 vehicles, and developing job sites with over 70 businesses throughout the metropolitan area. Clients are typically picked up by vehicles owned and operated by Merrick and transported to and from their homes. Approximately 180 clients spend their day (from about 8:30 am to 1:30 pm) entirely in the facility either receiving therapeutic services (50) or working (130) on various contracts outsourced to Merrick. The other 170 clients are transported from the facility to employer-based work sites. Some of the current business partners include: Accurate Components, Design House Greeting Cards, MedTox, Kowalski's Markets, Dodge Nature Center, U of M Horticultural Science & Landscape Architecture Department, Warner's Stellian and many more.

Merrick compensates clients according to the number of hours worked or, in some cases, the number of tasks performed in execution of piecework contracts. While modest, this compensation is universally a sense of pride to clients and provides discretionary income they use to purchase those things that are important to their quality of life. Approximately 85% of Merrick's professional staff are compensated hourly and 76% percent are classified as regular, full-time employees, eligible for health care and other benefits.

Approximately 33% of the total revenue paid to Merrick comes in the form of payments from the State of Minnesota, equal to $2,524,391 in FY 2010 with approximately the same amount from FFP. An additional $823,043 (11%) was paid by Ramsey and other county funds when a client is not eligible/offered Medicaid funding. These payments are made on a per-diem basis for each full- or partial-day a client attends the program (not paid if clients do not attend because of vacation, illness, appointment, weather, etc.). A separate per-diem is paid for transporting clients from home to work and back again equal to $1,081,968 in FY 2010, or approximately $540,984 in state and county dollars.

The benefits of this set of activities may be divided into six main subparts: (1) earnings and work satisfaction for the clients themselves; (2) benefits to the professional staff employed by the company; (3) benefits (avoided costs) to residential providers and individuals that would otherwise provide care during the period when clients are active at Merrick; (4) benefits from taxes paid by professionals, vehicular taxes and fees, and charitable gambling taxes and fees; (5) private sector benefits to company vendors; and (6) Merrick-leveraged foundation support and charitable giving to augment state and federal funding.

(1) Client Salaries and Satisfaction

Wages earned by Merrick clients are modest by any standards, but are still a source of economic support and a wage stimulus to the Minnesota economy. Total client earnings at Merrick in FY '10 were $536,750. Using the same multiplier calculation described for professional staff, such client wages generated $1,073,500 in final economic activity. In fact, the multiplier is probably higher because most are charged co-pays, have program fees (MA-EPD), or must "spend down" to remain Medicaid eligible so a lower proportion of their earnings are saved. Additionally, if only 50% of these earnings are spent on items subject to the State sales tax, clients at Merrick pay $18,000 a year in State sales tax and, based on a 2005 report, all clients in DT&H programs pay over $1.5 million annually in State sales tax. Beyond any monetary reward, wages earned by clients generate an incalculable but significant form of social capital: a sense of belonging and self-worth.

(2) Benefits to Professional Staff

As noted above, Merrick employs about 153 professional staff, with FY '11 salaries averaging $27,132 and full-time benefit packages valued at an average of $5,817 per year. The staff members obviously benefit from being employed: total employee hours at Merrick are forecasted at 145 per month in fiscal year FY '11, with total compensation for the year for all employees budgeted at $4,151,107 million dollars. Much of this income is returned to the Minnesota economy through a "multiplier effect" which, if a conventional wage-multiplier of 2 is used, implies final spending of $8,302,214 million dollars per year.

Apart from direct wage effects, many of Merrick's employees are actively engaged in professional development activities, increasing their skill levels so as to move up the professional ladder. As an example, since March 2006, Merrick has granted 42 scholarships totaling $63,000 to 31 employees using funds from the *MN HCBS Employee Scholarship Program* that can only be used by hourly employees for additional education and/or training leading to increased wages or promotional opportunities. As a result, they can expect to improve their future earnings prospects, and increase not only their own levels of living but expand their multiplier effects in the years to come.

(3) Avoided Costs of DT&H Service in Group Homes

During the period each weekday that clients attend Merrick, they no longer draw on the resources of their domiciles, whether family or group homes. While little data exists on the personal costs foregone in private homes, it is clear that Merrick employment allows family members who would otherwise be full-time caregivers to maintain outside employment themselves. In the case of group homes, the approximate per-hour cost of care is $7.30 per hour (in SFY 2007 there was an average of 14,096 people served in group homes at an average annual cost of $63,865 in state and federal funds divided by 8,760 hours).[5] Since clients attend Merrick an average of 6 hours a day for an average of 235 days a year, the avoided costs to the group home providers equals about $10,293 per client per year, which when multiplied by the approximate number of clients (210) living in a group home results in a savings of $2,161,530 or 42.8 percent of the $5,048,782 in State and Federal funds paid to Merrick in per-diems in FY '10. If a similar calculation was put to private home care, an additional $1,260,090 in avoided costs would put the total at $3,422,423, or 67.8 percent of State and Federal funds paid to Merrick in per diems in FY '10. This is likely to be an underestimate, since the employment available to home caregivers is most likely greater than the group home DT&H rate.

[5] Department of Human Services. Document Bulletin 5713, 2009. It should be acknowledged that if clients were not participating in Merrick, Inc. programs, residential or family members would pay for their care during the time they would otherwise have been at Merrick, requiring additional state expenditures, at least in the case of group homes. To avoid double-counting, the avoided costs of group and in-home care are not netted against state spending below.

(4) Tax and Other Revenue Benefits

Merrick professionals and clients pay taxes. While client wages are typically too low to be subject to tax, professional staff salaries, averaging about $27,000, fall into the 5.35 percent range in Minnesota's revenue calculations. For a single payer, after accounting for a personal exemption of $3,650 and a standard deduction of $5,700, taxes paid to Minnesota in 2010 would be based on an adjusted income of $17,650. At a 5.35 percent rate, this equals $944 in taxes paid to Minnesota per employee. If all 153 employees at Merrick paid at this rate, it would equal $144,432 in taxes paid to Minnesota. Also, in FY '11, Merrick has budgeted $401,766 for fleet fuel, maintenance, and license expense to operate its fleet of 65 vehicles. This results in payments to local providers of fuel, maintenance and licensing bureaus that in turn spend these dollars in the course of their business. Finally, Merrick operates pull-tab booths at 13 locations with a FY '11 forecasted revenue of $9,476,142. Of this, the state receives 5.2 percent or $492,759. Not many DT&H programs operate pull-tab booths and Merrick hopes to generate 1% of this total (lawful purpose expenditures) to support its mission, equaling $102,393.

(5) Private Sector Benefits

The companies and corporations that do business with Merrick, while clearly committed to hiring people with disabilities, do so consistent with sound business principles. In some cases, businesses are eligible for a targeted jobs tax credit (TJTC) of up to 40% of the client's first 12 months of wages. The federal minimum wage is $7.25. At 20 hours a week for 50 weeks, this equals $7,250 in the first year, of which 40 percent is $2,900. Approximately 50 clients at Merrick work in this situation, implying total first-year tax credits of $145,000. In return, businesses receive work product equal to, and in some cases better than, that which would result from standard non-disabled wage and contract terms. This "win-win" arrangement is clearly an enormous source of satisfaction to employees with a disability, but it is also a benefit to the employer. By helping the employer to support ongoing business activity while also supporting citizens with disabilities, day programs are effectively "brokering" private and public sector benefits.

(6) Merrick-Leveraged Foundation and Charitable Giving

Much emphasis is given in some quarters to the need for disabled citizens to seek support not from government, but from their own resources and initiative. While the clients at Merrick are unlikely to seek out, apply for and find foundation or charitable support, the employees at Merrick, Inc., can and do so. In fact, Merrick received an average of $390,556 per year from donations, fundraising, and grants in the last five years. While some of these grants might have gone elsewhere if Merrick did not exist, many are tied directly to Merrick and its mission.

Summary

When the six categories of benefits resulting from Merrick's activities are brought together, they represent a significant counterweight to the $3,888,418 program cost ($2,524,391 state + $823,043 counties + $540,984 transportation) incurred by the State of Minnesota and Counties to support Merrick's clients. These data are summarized below.

Total annual client costs to Minnesota and Counties (dollars)	3,888,418
Professional Staff salaries and benefits @ 4,151,107, with a multiplier of 2	(8,302,214)
Tax revenues resulting from professional wages paid 27,132 x .053% x 153	(220,013)
Vehicle payments for fuels, maintenance and licensing	(401,766)
Pull-tab revenue to Merrick, Inc.	(102,393)
State tax revenues from pull-tab revenue	(492,759)
Client wage earnings at Merrick, Inc., @ 536,571, with a multiplier of 2	(1,073,142)
Client paid State sales tax	(18,000)
Foundation, grant and private donations to Merrick (5 year average)	(390,566)

In effect, each of the dollar categories in brackets shows a way in which Merrick, Inc., *"gives back"* in local and state economic benefits to Minnesota and the Counties. Taken together, these social dividends equal $11,000,853 including multiplier effects. This is nearly three times the amount the State and Counties spend to support Merrick's mission.