

Legislative Claims—Continued

“(d) For which settlement is not otherwise provided for by statute or constitutional provision.”

Many of the claims under (c) (2) for an injury for which the state is liable are tort liability claims provided for under Budget Bill, Item 180.

Because the list of claims which will eventually be presented to the Legislature is incomplete as of this time, our analysis of all claims will be presented when the item is heard by the Legislature.

**TEMPORARY LOANS TO THE GENERAL FUND**

**Item 307 from the California Water Fund**

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This item, which is similar to Item 267 of the Budget Act of 1968, would authorize temporary transfers from the California Water Fund to the General Fund in the event the cash position of the General Fund would require such transfers. Under the terms of Section 16310 of the Government Code transfers made from special funds to the General Fund, upon a determination of necessity by the Governor and Controller, are to be returned to the fund from which transferred as soon as there is sufficient money in the General Fund for this purpose. This section also provides that no transfers can be made from a special fund which would interfere with the object for which the fund was created.

Section 16310, amended by Chapter 1457, Statutes of 1968, provides that when loans from the California Water Fund exceed 10% of the preceding fiscal year's total additions to surplus available for appropriation in this fund, interest must be paid. This interest is paid on the excess borrowing above total additions to surplus available for appropriation, at a rate determined by the Pooled Money Investment Board. This rate is the current earning rate of the fund from which the loan is transferred.

**LOCAL ASSISTANCE**

**Department of Agriculture**

**COUNTY FAIRS**

**Item 308 from the Fair and Exposition Fund**

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FOR TRANSFER TO THE GENERAL FUND_____	\$149,500
Total recommended reduction _____	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the item.*

Under Section 19627, Business and Professions Code, eligible county fairs may receive an annual appropriation not to exceed \$65,000 per

County Fairs—Continued

fair. As a result of the appropriation authority in Section 19627, \$1,495,000 is available each year to subvene the maximum statutory amount of \$65,000 to 23 county fairs.

As in Item 68, the Budget proposes to continue a policy which was introduced in the 1967-68 fiscal year. Thus, \$149,500 or 10 percent of the \$1,495,000 appropriated through Section 19627 for support of county fairs is proposed to be reappropriated from the Fair and Exposition Fund to The General Fund during the 1969-70 fiscal year.

**Department of Agriculture  
LOS ANGELES COUNTY FAIR**

**Item 309, from the Fair and Exposition Fund**

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FOR TRANSFER TO THE GENERAL FUND_____	\$25,000
Total recommended reduction_____	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the item.*

Pursuant to Section 19622 (b), Business and Professions Code, the sum of \$250,000 is appropriated annually from the horseracing revenues in the Fair and Exposition Fund for support of the Los Angeles County Fair. This item effectuates a 10 percent reduction by reappropriating \$25,000 from the Fair and Exposition Fund for transfer to the General Fund. The Los Angeles County Fair experienced a similar reduction during the last two years.

**Department of Agriculture  
CITRUS FRUIT FAIRS**

**Item 310 from the Fair and Exposition Fund**

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FOR TRANSFER TO THE GENERAL FUND_____	\$18,000
Total recommended reduction_____	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*

Section 19626 (a), Business and Professions Code, appropriates annually from the horseracing revenues in the Fair and Exposition Fund a maximum of \$180,000 for support of citrus fruit fairs which are nonprofit corporations and not local fairs. Two such fairs qualify for allocations from this appropriation as designated in subdivision (b) and (c) of that section. These are: the National Orange Show in San Bernardino which receives \$150,000 pursuant to subdivision (b) and the Cloverdale Citrus Fair which receives \$30,000 pursuant to subdivision (c).

Citrus Fruit Fairs—Continued

This item effectuates a 10 percent reduction in the \$180,000 appropriation by appropriating \$18,000 from the Fair and Exposition Fund for transfer to the General Fund. This reduces support for the National Orange Show by \$15,000 and the Cloverdale Citrus Fair by \$3,000 and is consistent with actions by the Legislature during the last two years.

Department of Agriculture

SALARIES OF COUNTY AGRICULTURAL COMMISSIONERS

Item 311 from the General Fund

Requested 1969-70	\$171,600
Estimated 1968-69	171,600
Actual 1967-68	170,115
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

Approval is recommended.

This item appropriates funds in accordance with Sections 2221-2224 of the Agricultural Code, which provide for cost-sharing agreements for portions of agricultural commissioners' salaries in order to provide adequate and uniform enforcement of applicable Agricultural Code provisions. The appropriation makes available through agreement between the Director of Agriculture and any county board of supervisors a sum not to exceed \$3,300 per year or two-thirds of the salary of each commissioner, whichever is less.

ASSISTANCE TO CITIES AND COUNTIES FOR LAND UNDER CONTRACT

Item 312 from the General Fund

Requested 1969-70	\$446
Estimated 1968-69	446
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the item.

Chapter 1443, Statutes of 1965, provides that owners of prime agricultural lands, and other lands compatible with agricultural uses, may enter into 10-year contracts with cities and counties for the establishment of agricultural preserves to restrict the use of such lands for agricultural purposes. Section 51260 of the Government Code provides an annual state payment of \$1 to cities and counties for each acre of land under contract, which may be used for the cost of administration and to

Assistance to Cities and Counties for Land Under Contract—Continued

make or assist in making additional payments to the owners of land under contract. The amounts of payments to owners is specified in the code at five cents per acre for contract lands.

Presently, a total of approximately 2.2 million acres of agricultural lands are covered under terms of Chapter 1443. However, the vast majority of this land is restricted for agricultural use under terms of agreements rather than contracts. Agreements, as opposed to contracts, do not require an annual \$1 per acre subvention to the counties. Thus, the proposed appropriation in Item 312 represents a subvention for one 446-acre contract held in Fresno County. Seven other contracts exist in Fresno County, but the subvention requirement has been waived by the county.

The validity of 72 other contracts, totaling 38,238 acres in Kern County, is presently under litigation.

Department of the Youth Authority
ASSISTANCE FOR CONTROL OF JUVENILES

Items 313 and 317 from the General Fund

Table with 2 columns: Description and Amount. Rows include Requested (\$104,560), Estimated 1968-69 (55,330), Actual 1967-68 (45,500), Requested increase \$49,230 (89 percent), and Total recommended reduction (None).

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the items.

The \$104,560 requested consists of two separate items of \$52,280 each.

The basic appropriation request of \$52,280 represents the state's share of the cost of operating the border check station between the City of San Diego and Tijuana under the existing cost sharing ratio with the city. The second is a program augmentation item to increase the state contribution an additional \$52,280. The purpose of the check station is to prevent the crossing of unescorted juveniles into Mexico. The state and San Diego city share equally in operating costs attributable to juveniles not residents of the city. Therefore, the city pays part of the cost relating to residents from throughout the state.

The Department of the Youth Authority proposes that the state pay the entire cost of operations for noncity residents. This would require a doubling of the state's cost in this area and is the basis for the program augmentation item. While the check station was originally established by the City of San Diego to resolve what was thought to be primarily a local problem, the state subsequently became a party because the majority of juveniles turned back at this particular border crossing were from other than the City of San Diego.

**Department of The Youth Authority  
COUNTY DELINQUENCY PREVENTION COMMISSIONS**

**Items 314 and 318 from the General Fund**

Requested 1969-70 -----	\$229,000
Estimated 1968-69 -----	25,000
Actual 1967-68 -----	14,867
Requested increase \$204,000	
Increase to improve level of service \$200,000	
Total recommended reduction -----	\$200,000

**SUMMARY OF RECOMMENDED REDUCTIONS**

	<i>Amount</i>	<i>Analysis page</i>
Delete program augmentation -----	\$200,000	877

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

**Sparsity of Information Relating to Local Prevention Activities and Organizations**

We recommend that the Department of the Youth Authority develop a file of major organizations and groups working in delinquency prevention and prepare summary statements on major delinquency prevention programs or projects on a countywide basis. (Analysis page 876)

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of this item in the reduced amount of \$29,000.*

The total assistance request consists of two separate categories of expenditure. The first is a request for \$29,000 to provide \$1,000 each for expenses of 29 county delinquency prevention commissions. This subsidy has been regularly authorized to encourage development of such commissions. The purpose of the commission is to develop and coordinate delinquency prevention programs and activities within the counties.

**Sparsity of Information Relating to Local Prevention Activities and Organizations**

*We recommend that the Department of the Youth Authority develop a roster of major organizations and groups working in delinquency prevention and prepare summary statements on major delinquency prevention programs or projects on a countywide basis. This should include activities of county delinquency prevention commissions.*

It would appear that in order to direct a statewide program to encourage delinquency prevention activities, there should be available a central source on organizations and programs in this field. The Department of the Youth Authority lacks such centralized information. Therefore, there is a lack of knowledge of the full extent and nature of delinquency prevention activities and lack of coordination of such activities.

**County Delinquency Prevention Commissions—Continued  
Need to Better Justify Delinquency Prevention Commissions**

*We recommend that the Department of the Youth Authority develop information as to the activities and effectiveness of the county delinquency prevention commissions so that continued support of these commissions can be more fully justified.*

Continued subsidization of part of the expenses of these commissions should be based on an evaluation of the effectiveness of these commissions in developing and implementing delinquency prevention programs.

**Subsidy for Prevention Programs**

*We recommend the deletion of the requested \$200,000 to subsidize undeveloped and undefined delinquency prevention programs.*

This renews a request denied by the Legislature in the 1966-67 budget. The funds are requested to implement local delinquency prevention programs that are subsequently developed by local prevention commissions and approved by the state Delinquency Prevention Commission. Approval of the request as proposed would preclude legislative review of programs prior to implementation. Programs could be implemented with small first year cash outlays requiring increasingly greater state support in subsequent years.

The agency advises that local organizations will not devote the necessary effort to develop programs if there are no state funds available to insure financing. The question evolves into a policy issue for the Legislature to decide whether it wishes to review each proposed prevention program prior to authorizing state support or whether to turn this function over to the Delinquency Prevention Commission. Under this latter procedure, the Legislature would still maintain control over total expenditures authorized and a review of programs subsequent to implementation.

Our recommendation is that the more restrictive pre-implementation review and approval procedure be followed.

**Department of the Youth Authority  
MAINTENANCE OF JUVENILE HOMES AND CAMPS**

**Item 315 from the General Fund**

Requested	\$3,545,340
Estimated 1968-69	3,242,000
Actual 1967-68	3,118,305
Requested increase \$303,340 (9.4 percent)	
Total recommended reduction	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of this item.*

This expenditure item is to provide the state's share of the cost of maintaining delinquent juveniles in county operated homes, ranches,

Maintenance of Juvenile Homes and Camps—Continued

and camps. Sections 880 through 890 of the Welfare and Institutions Code authorizes the state to contribute up to one-half the cost of care but not to exceed \$95 per child per month.

The program will provide for 3,660 wards in 71 county facilities in 1969-70 as opposed to 3,442 wards in 67 facilities during the current year. Total ward care cost for these 71 county facilities in 1969-70 is estimated at \$20,935,357. The counties will provide \$17,390,017 of the total cost.

**Department of the Youth Authority  
CONSTRUCTION OF JUVENILE HOMES AND CAMPS**

**Item 316 from the General Fund**

Requested -----	\$1,289,075
Estimated 1968-69 -----	474,000
Actual 1967-68 -----	686,611
Requested increase \$815,075 (172 percent)	
Total recommended reduction -----	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of this item.*

Under Section 891 of the Welfare and Institutions Code, the state contributes up to one-half, but not to exceed \$3,000 per bed, of the cost of construction of county juvenile homes, ranches and camps for delinquents.

The expenditure request is based on expressed intentions of seven counties to construct nine facilities, adding a total of 480 additional bed capacity. Four of these projects, totaling \$975,000 in state funds, were approved but deferred during the current year and are now proposed for the budget year.

There is a problem in budgeting for this item because the state budget is prepared and approved substantially in advance of the county budgets. A subsequent deferment by the county of any of the proposed projects results in a reversion of the funds.

**Department of the Youth Authority  
PILOT YOUTH CENTER PROGRAMS**

**Item 319 from the General Fund**

Requested -----	\$100,000
Estimated 1968-69 -----	100,000
Requested increase—None	
Total recommended reduction -----	None

**Pilot Youth Center Programs—Continued  
ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of this item. We also recommend that the Department of the Youth Authority establish methods to evaluate the effectiveness of the centers in providing the authorized services.*

This program, authorized by Chapter 934, 1968 Session, would establish four pilot Youth Service Bureaus in California communities to be selected by the Delinquency Prevention Commission. The act became effective November 13, 1968, and automatically terminates 61 days after adjournment of the 1971 session.

The mission of the bureaus is to coordinate local delinquency prevention services and hopefully to bring about a reduction in delinquent activity. The programs for the four centers were not selected and approved until January, 1969, because of the time required to review applications submitted in the latter part of 1968. The enabling legislation provided \$100,000 for the four bureaus which was based on the anticipated annual cost of operation.

The \$100,000 now requested is for the second year of the program. This will provide \$25,000 per bureau for a coordinator, clerical assistance and operating expenses as required. The Department of the Youth Authority should establish methods to determine the program's effectiveness for presentation to the 1970 Legislature as a basis for any future extension of the program.

**Department of the Youth Authority  
SPECIAL SUPERVISION PROGRAMS**

**Item 320 from the General Fund**

Requested 1969-70	\$12,760,000
Estimated 1968-69	7,465,735
Actual 1967-68	3,599,128
Requested increase \$5,294,265 (70.9 percent)	
Total recommended reduction	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

**Need for Continuation of This Subsidy**

*We recommend that Section 1827 of Article 7, Welfare and Institutions Code be repealed to permit continuation of this subsidy program on a permanent basis. (Analysis page 880)*

**Probation Subsidy Research**

1. *We recommend that the department and the participating counties develop a uniform reporting system reflecting the performance and rehabilitative effect of the various special programs established under the state subsidy. (Analysis page 883)*

2. *We recommend that the data compiled be reported annually to the Legislature. (Analysis page 883)*



**Special Supervision Programs—Continued**

3. *We recommend that costs of this statewide research effort be assessed against payments to the counties under this subsidy program. (Analysis page 883)*

**Use of Earnings for Minor Offenders**

*We recommend amendment of the Welfare and Institutions Code to permit use of subsidy moneys for special probation services to offenders other than those subject to state incarceration. (Analysis page 883)*

**GENERAL PROGRAM STATEMENT**

This subsidy program is authorized under Sections 1820–1827 of the Welfare and Institutions Code which were enacted at the 1965 Legislative Session. The program terminates on the 91st day after the final adjournment of the 1969 Regular Session in accordance with Section 1827. The enabling legislation required the Department of the Youth Authority to submit a report on the experience and results of the program to the 1969 Legislature and this has been done.

The subsidy is to provide for enriched and innovative county probation programs previously approved and meeting minimum standards established by the Department of the Youth Authority. Payments to each county are made on the basis of a scale of reimbursements set forth in the Welfare and Institutions Code and based on the reduction in that county's commitments to state correctional facilities below a base rate established under the code.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the item.*

**Need for Continuation of This Subsidy Program**

*We recommend that Section 1827 of Article 7 of the Welfare and Institutions Code be repealed to permit continuation of this subsidy program on a permanent basis.*

Since the beginning of this special supervision program for adult and juvenile probationers in July, 1966, 41 counties containing 94.6 percent of the state's population have joined the program. By July, 1968, the department had approved programs involving 533 probation officers. At an average maximum caseload of 50 probationers per officer, enriched probation services could be provided to over 26,000 probationers. However, those special caseloads vary from 30 to 50 probationers. Because of this and the fact that an accounting of the total probationers involved has not been made, the total caseload is probably something less than 26,000.

The agency estimates that the 3,814 persons not committed to state institutions during the first two years of the program represent a savings of approximately \$15,256,000. Reimbursements to the counties for those same two years were \$5,706,227. Total potential earnings were not utilized because of the restriction that reimbursements are limited to approved programs and sufficient programs were not implemented in certain counties due to local budgetary and recruitment limitations.

Special Supervision Programs—Continued  
Reduction in Construction of State Facilities

The reduction in institutional construction is a result of lower commitments due to the subsidy program and other undetermined factors. The five-year construction program issued July, 1967, projected a need for four additional institutions, three new 80-ward camps and additions to existing facilities to care for an increase in capacity of 2,270 wards by 1973-74. The five-year construction plan issued in July, 1968, took into account the decline in commitments and all but two 80-ward camps and one 480-capacity institution have been deleted from current construction plans. This is a 1,630-bed reduction. At an estimated \$18,000 cost per bed, this reduction represents a potential total construction savings of \$29,400,000. The program, to date, has contributed to a substantial reduction in commitments at state institutions, resulting in savings in state institution and parole operating costs and state construction. Therefore, this program should be continued to further test its effectiveness.

Commitment Reductions by Participating and Nonparticipating Counties

The agency reports that the probation subsidy program resulted in 3,814 fewer adult and juvenile commitments to state institutions during the first two full fiscal years of the program (1966-67 and 1967-68). This claim is subject to further explanation because other factors have contributed to the commitment decline. This is borne out by the fact that counties not participating in the program also committed 802 fewer persons to state institutions computed on the same basis as the 3,814 cases previously cited. These other factors may include such things as changes in sentencing practices and high economic and employment activity.

Table 1  
Comparison of State Institutional Commitments  
Under the Probation Subsidy Program

	1966-67 Fiscal Year		1967-68 Fiscal Year	
	Participating Counties	Non-Participating Counties	Participating Counties	Non-Participating Counties
<i>Total OYA &amp; CDC</i>	(31)	(27)	(36)	(22)
Expected commitments -----	8,757	3,096	9,620	2,435
Actual commitments -----	7,359	2,627	7,204	2,102
Difference (exp./act.) -----	-1,398	-469	-2,416	-333
Rate decrease (%) -----	-16.1	-15.1	-25.2	-13.8
Youth Authority				
Expected -----	4,332	1,456	4,793	1,081
Actual -----	3,872	1,296	3,599	1,109
Diff. (exp./act.) -----	-460	-160	1,194	+28
Rate decrease (%) -----	-10.6	-10.9	-24.9	+2.5
Corrections				
Expected -----	4,425	1,640	4,827	1,354
Actual -----	3,487	1,331	3,605	993
Diff. (exp./act.) -----	-938	-309	-1,222	-361
Rate decrease (%) -----	-21.4	-18.8	-25.4	-26.8

Table 1 reflects that there have been substantial decreases in each fiscal year of the number and percentage of commitments expected. The number expected was computed on the higher of either a five-year

## Special Supervision Programs—Continued

(1959-63) or two-year (1962-63) base commitment rate previously determined and applied to projected population totals of the two county groups. There have also been significant reductions in nonparticipating county commitments computed on the same basis as shown in Table 1. Participating counties reduced total state commitments 16.1 percent in 1966-67 as compared to 15.1 percent for nonparticipating counties and 25.2 percent in 1967-68 as opposed to 13.8 for nonparticipating counties. It is also noted that in 1967-68 juvenile commitments were reduced 24.9 by participating counties while nonparticipating counties increased their rate by 2.5 percent. Yet the adult commitment rate reduction for the two county groups for that fiscal year were almost identical at 25.4 and 26.8 percent. Therefore, it is apparent that factors other than probation subsidy is affecting commitment rates. The effect of these other factors is also reflected in Table 2.

Table 2  
Rate of Commitments to State Institutions

Year	Juvenile <sup>1</sup>	Adult <sup>2</sup>
1960	174.9	38.0
1961	188.2	37.8
1962	169.7	30.2
1963	173.7	30.0
1964	162.5	29.1
1965	174.1	32.0
1966	148.0	28.8
1967	129.6	26.3
1968	118.7	--

<sup>1</sup> Rate per 100,000 in the 10-20 age group.

<sup>2</sup> Rate per 100,000 state population.

Table 2 reflects some downward movement in the rate of juvenile first commitments even before the special probation subsidy was enacted. The rate declined from 188.2 in 1961 to a low of 162.5 in 1964. This trend has accelerated since implementation of the program reaching a commitment rate of 118.7 for 1968.

Adult commitments also were declining prior to enactment of this special program as reflected in Table 2. The downward trend in adult commitments does not exhibit as dramatic a reduction subsequent to the subsidy program as occurred in juvenile commitments.

To the extent that other factors are reducing commitment rates, the participating counties would receive a subsidy windfall. County probation had been increasing its percentage of cases handled under local supervision before implementation of the subsidy. County probation caseloads increased from 44.3 percent in 1960 to 50.8 percent of felony convictions just prior to enactment of the subsidy program in 1965. This probation rate has continued to increase to 52.4 percent in 1966 and 58.7 in 1967.

While we believe the program should be continued there are certain modifications which we believe desirable.

## Special Supervision Programs—Continued

## Probation Subsidy Research

1. *We recommend that the department and the participating counties develop a uniform reporting system reflecting the performance and rehabilitative effect of the various probation supervision programs established.*

2. *We recommend that the data compiled be reported annually to the Legislature.*

3. *We recommend that costs of this statewide research effort be assessed against payments to the counties under this subsidy program.*

There are now 41 counties in the program resulting in a variety of special supervision programs. These programs are staffed at a probationer to officer ratio from 30 to 1 to 50 to 1 as compared to normal probation caseloads varying from 225-to-1 to 75-to-1 in certain counties. There is and will be a continuing need to determine the effectiveness of these various county programs as reflected in the performance of probationers. We have reviewed the special probation programs in a number of large and small counties. Some of these probation departments have commenced to gather data on their special programs but they expressed a need for statewide implementation, uniformity and coordination of data collection. All probation departments contacted expressed a need for information on other county programs and research to compare effectiveness of the various programs. We therefore have recommended the establishment of a research program to be administered by the Department of the Youth Authority to implement and coordinate research of local special probation supervision programs. Costs of such research should be assessed, at a reasonable rate to be determined, against payments to the counties under this program. The research will benefit all counties and the cost should therefore be shared proportionately.

## Use of State Subsidy for Minor Offenders

*We recommend that the Welfare and Institutions Code be amended to permit counties to use subsidy funds for special probation services to offenders other than those subject to state incarceration.*

In our contacts with county probation departments, some administrators expressed a desire to use a portion of the state subsidy earned for services to persons other than probationers subject to commitment to state institutions as is now required. This would include law violators not subject to state incarceration and also youths whose behavior brings them to the notice of enforcement and probation authorities. This group could include relatives of probationers. This would expand local probation activity to some extent. However, it should also provide additional service and may be effective in reducing delinquent behavior in the community. These new programs should be subject to rules and regulations to be established by and subject to approval of the Department of the Youth Authority as now required in the existing subsidy program.

**Subventions for Education  
STATE SCHOOL FUND**

**Items 321 and 322 from the General Fund**

Items 321 and 322 have been added to the Budget Bill for the first time. Although funds are not appropriated to the State School Fund for support of the public schools through these items, they do serve as a budgetary limitation on the maximum amount which may be transferred from the General Fund to the State School Fund.

The increased \$273.88 unit rate used to derive the \$1.4 billion State School Fund is contained in Item 321 and will become operative only if statutory law is enacted to comply. The reduced \$254.84 unit rate (to maintain the current level) is contained in Item 322 and will become operative only if the former does not.

A complete analysis of the State School Fund and this limitation can be found on pages 178 through 181.

**Subventions for Education  
COOPERATIVE IMPROVEMENT PROGRAM**

**Item 323 from the General Fund**

Requested .....	\$275,000
Estimated 1968-69 .....	275,000
Requested increase—None	
Total recommended reduction .....	\$275,000

**SUMMARY OF RECOMMENDED REDUCTIONS**

	<i>Amount</i>	<i>Analysis page</i>
Eliminate program .....	\$275,000	226

**GENERAL PROGRAM STATEMENT**

Chapter 1398, Statutes of 1968, established allowances to school districts for cooperative improvement programs which are intended to assist districts to plan effectively for improved educational programs. The act encourages school districts to enter cooperative or contractual arrangements with business and industry and elements within the community for the planning, evaluation and operation of programs. Although the new program has not yet been implemented, we can generalize that the funds appropriated for this program can be used for almost any purpose.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend that the item be deleted.* A discussion of this subject is included in the section of the Analysis dealing with the Department of Education on page 226.

**Subventions for Education  
INSTRUCTIONAL TELEVISION**

**Item 324 from the General Fund**

Requested 1969-70	\$850,000
Estimated 1968-69	750,000
Actual 1967-68	647,018
Requested increase \$100,000 (13.3 percent)	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

Chapter 1236, Statutes of 1965, authorizes the Superintendent of Public Instruction to make allowances to encourage the use of classroom instructional television. School districts and county superintendents of schools receive \$0.50 per pupil in classes taught by instructional television. Payments under this program, however, shall not exceed one-half the cost to the local agency of providing televised instruction.

The Department of Education reports that approximately 33 percent of the current public school enrollment for grades K-14 is receiving some instruction by television. Planning, production, utilization and evaluation of programs for these students are carried out through nine regional instructional television associations. In the current year 245 programs for classroom use and in-service training will be broadcast through the facilities of 11 California stations.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of this item as budgeted.* The budget includes a General Fund appropriation of \$850,000. This represents an increase of \$100,000, or 13.3 percent, which is comparable to the growth experienced in this program in recent years.

**Subventions for Education**

**SPECIAL ELEMENTARY SCHOOL READING PROGRAM**

**Item 325 from the General Fund**

Requested 1969-70	\$16,000,000
Estimated 1968-69	16,000,000
Actual 1967-68	7,649,621
Requested increase—None	
Total recommended reduction	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

1. Alternative Considerations for Increased Funding.

We recommend that the Legislature consider alternatives to providing additional state support for the program of local assistance authorized by the Miller-Unruh Basic Reading Act.

2. Relocation of the Program Responsibility.

## Special Elementary School Reading Program—Continued

We recommend that legislation be enacted which will transfer responsibility for the administration of the program elements and the evaluation elements of the Miller-Unruh Basic Reading Program to the Office of Compensatory Education.

## GENERAL PROGRAM STATEMENT

The Miller-Unruh Basic Reading Act established by Chapter 1233, Statutes of 1965, provides allowances to school districts for the employment of specialist reading teachers in grades 1-3 plus payments for the salaries of librarians. State support is based on a system of priorities which provide (1) for the continuation of existing programs, (2) for the establishment of new programs in equalization aid districts starting with districts which have the largest percentage of children with reading handicaps and (3) for the establishment of new programs in basic aid districts under the same criteria used for equalization aid districts.

The program as originally established provided allowances to participating school districts on an equalization aid basis. In recent legislative sessions, however, substantial changes have been made to the system of state support. Chapter 1643, Statutes of 1967, eliminated the equalization aid approach and provided for 100 percent state support for the provision of specialist teachers in equalization aid districts. Chapter 955, Statutes of 1968, further extended the program by authorizing basic aid districts to receive funds on a 50-percent matching basis to the extent that appropriations permit after support is provided for existing programs and for equalization aid districts. Table 1 illustrates the amount of the annual legislative appropriations for this program compared with the total amounts districts have requested since the program began.

Table 1  
Appropriations and Expenditures for Miller-Unruh Basic Reading Act

	1966-67	1967-68	1968-69	1969-70 (est)
Budget Appropriation	\$8,909,000	\$14,000,000	\$16,000,000	\$16,000,000
Requirement to fund district applications	1,348,986	7,468,885	30,279,864	39,289,950
Difference	\$7,560,014	\$6,531,115	\$-14,279,864	\$-23,289,950

## ANALYSIS AND RECOMMENDATIONS

As demonstrated by Table 1 in 1968-69 the total amount requested in district applications increased substantially and, for the first time since the establishment of the program not only exceeded the budget appropriation but did so by the substantial amount of \$14.3 million. This reflects the modification in state support formulas from roughly a 50/50 state-local sharing relationship to 100 percent state support.

The budget contains no increase in the General Fund appropriation to support this program in 1969-70. The Department of Education, however, estimates that the amount requested to support continuation of existing programs and the expansion of service to new applicants will be \$39.3 million. This will result in an increase in the difference

## Special Elementary School Reading Program—Continued

between the amount requested and the budgeted appropriation to \$23.3 million.

## Alternative Considerations for Increased Funding

*We recommend that the Legislature consider alternatives to providing additional state support for the program of local assistance authorized by the Miller-Unruh Basic Reading Act.*

We believe that in reviewing the support of the Miller-Unruh Basic Reading Act, consideration should be given to an increase in state support based on the availability of General Fund surplus. To facilitate this review, we offer three alternatives which are listed below in order of the increasing General Fund support that would be required.

1. *Maintenance of the Relative Difference Between Appropriation and Application Amounts.* In the current year the budgeted amount of \$16 million is 47 percent of the \$30,279,864 requested by school districts. In 1969-70 it is estimated that it would require \$39,289,950 to fund all applications. Because the proposed budget amount of \$16,000,000 would fund only 40 percent of the amount to be applied for by districts in 1960-70, the Legislature should consider increasing the amount appropriated to maintain the 47 percent relative difference between applications and appropriation in the budget year. This approach would result in a total appropriation of \$18,505,567 ( $\$39,289,950 \text{ application amount} \times 47 \text{ percent} = \$18,505,567$ ) or an increase in the budget amount of \$2,505,567.

2. *Maintenance of Existing Difference.* In the current year the difference between the amount requested in school district applications and the amount provided by the budget appropriation was \$14,279,864. Based on the budgeted amount of \$16,000,000, the difference will grow to \$23,289,950 in 1969-70. The Legislature could consider appropriating sufficient funds to hold the difference between the application and appropriation amounts at the existing level of approximately \$14 million in the budget year. To provide for this approach an appropriation of \$25,001,086 ( $\$39,289,950 - \$14,279,864 = \$25,001,086$ ) would be necessary or an increase of \$9,001,086.

3. *Full Funding for the Highest Priorities.* The Education Code states that the highest priority for the allocation of funds is to continue the existing programs. Second in this priority system is the funding of new program applications in equalization aid districts. Finally, as the third and lowest priority, the law states that, to the extent that the funds appropriated permit, program applications may be funded in basic aid districts. Based on the established system, the Legislature should consider providing funds to support the two highest priorities. This would authorize the continuance of existing programs and permit the funding of new applications in equalization aid districts. The Department of Education estimates, based on the recently completed survey of school districts to determine 1969-70 requirements for this program, that of the \$39,289,950 total application amount, \$38,593,350 would be required to fund existing programs and provide new programs in equalization aid districts. This would require an increase of \$22,593,350.



Special Elementary School Reading Program—Continued  
Relocation of the Program Responsibility

*We recommend that legislation be enacted which will transfer responsibility for the administration of the program elements and the evaluation elements of the Miller-Unruh Basic Reading Program to the Office of Compensatory Education.* We do not believe that the Department of Education and the Division of Instruction are providing an adequate level of service for the administration and evaluation of this, the largest of the several categorical aid programs financed entirely from the General Fund, nor have we seen any indication that either the Department of Education or the State Board of Education has suggested remedies to improve the relatively inconclusive results of the program to date. The specific deficiencies in the administration of the program are listed below.

1. The Miller-Unruh Reading Program is currently in its third year of operation. A total of \$29 million from the state General Fund has thus far been expended by school districts for the employment of specialist reading teachers, yet to date the success of the program in improving the reading scores of underachieving pupils is inconclusive. A recent evaluation report which was summarized previously in this analysis under the section titled Summary of Expenditures for Education (see page 205) indicated that the test results of the participating school districts were inconclusive because the districts reported their test scores on a districtwide basis instead of reporting the scores of the pupils who actually participated in the program.

2. Not only are the objective test results inconclusive but, in addition, we do not know of any document published by the Department of Education during the three years of this program's operation which attempts to analyze the special reading programs and the elements of such programs which appear to be successful and the programs which are apparently unsuccessful.

3. Substantial responsibility for the unacceptable level of evaluation for this program must be shared by the Division of Instruction and by the State Board of Education for neither providing the program with sufficient administrative support nor requesting such support through the budget process. Currently, responsibility for the administration of the program elements of this \$16 million state program is vested in two consultants located within the Bureau of Elementary and Secondary Education within the Division of Instruction. Although the recent evaluation report suggested that additional staff was required to improve the evaluation of the program, it stated that no funds were available for this purpose. However, it is noted that the State Board of Education has had at its disposal during the three years in which the reading program has been operational approximately \$1.5 million to \$2.0 million a year in discretionary federal funds which are available under the provisions of Title V of the Elementary and Secondary Education Act and which may be used to "strengthen the department". The various purposes for which these Title V funds are currently used are discussed in greater detail in the section of the Analysis dealing with the Elementary and Secondary Education Act of 1965. We find it difficult to understand why such federal funds have not been used

to improve the administration and evaluation of a program as critical as the Miller-Unruh Basic Reading Act. Furthermore, a review of the preliminary General Fund budget request of the Department of Education reveals that no additional positions were originally requested for the Miller-Unruh Reading Program.

We believe that the administration of the program elements of the Miller-Unruh Reading Program should be placed in the Office of Compensatory Education inasmuch as this office is one of the few units within the department which publishes a comprehensive annual report regarding the administration of the state and federal programs for which it is responsible. Moreover, this unit has demonstrated by the detailed information in its reports that it is responsive to the Legislature's interest in determining the programs and elements of programs which pay off in terms of improved achievement levels.

**Subventions for Education  
MATHEMATICS IMPROVEMENT PROGRAM**

**Item 326 from the General Fund**

Requested 1969-70	\$925,000
Estimated 1968-69	925,000
Requested increase—None	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

The Mathematics Improvement Program, as established by Chapter 1639, Statutes of 1967, authorizes four experimental pilot projects to improve the quality instruction of mathematics in the public schools. The programs which are to be conducted in grades 2, 3, 5, 6 and 8 through 12 are summarized below.

1. Achievement Test Development. The State Board of Education is directed with the advice of the Statewide Mathematics Advisory Committee, to develop an achievement test in mathematics for grades 3, 6 and 8 which will determine the degree to which the mathematics programs of the public schools meet the objectives of the revised outline of curriculum developed by that advisory committee.

2. Specialized Teacher Program. The purpose of this program is to permit teachers who have a special interest in mathematics to instruct in the subject.

At least half of these specialized teachers are required to participate in summer in-service training programs to be conducted in regional training centers. Pupils instructed by participating teachers are to be tested to evaluate the effectiveness of the program. The state will pay the costs of all regional in-service training programs including stipends for the participants plus living and travel expense.

3. Mathematics Specialist Program. This program is designed to improve the quality of instruction of mathematics through the employment of the finest mathematical talent available. The specialist need not

**Mathematics Improvement Program—Continued**

hold a teaching credential, but is required to have a college minor in mathematics or its equivalent. Districts participating in this program receive allowances for the salaries of their mathematics specialists on an equalization formula.

4. Accelerated Instruction Program. This program is designed to encourage school districts to establish accelerated programs of instruction in mathematics in cooperation with institutions of higher learning. These programs are to include grades 8 through 12 and incorporate the basic principles of mathematics and the operations of calculus. The state reimburses participating school districts for the costs of contractual agreements with colleges and universities which cooperate in these projects.

**ANALYSIS AND RECOMMENDATIONS**

The activities to date in the implementation of the Mathematics Improvement Program as reported by the Superintendent of Public Instruction to the State Board of Education on December 8, 1968 can be summarized as follows.

1. Achievement Test Development. In December of 1967 the Department of Education contracted, for \$100,000, with the School Mathematics Study Group of Stanford University to construct an achievement test which would measure the degree to which mathematics instruction in the public schools meets the objectives required by the Legislature. The approach utilizes a statistical sampling procedure to provide an accurate estimate for the entire state. It is anticipated that work on this project will be completed by September 30, 1969. At present there are a total of 2,318 classes composed of 69,432 students participating in the pilot testing for the project.

2. Specialized Teacher Program. Training in the summer of 1968 was conducted in three centers and included 130 teachers. In these projects various teaching strategies were utilized and their effect will be evaluated by pretests and post-tests. Specialized teachers are currently employed in 48 school districts and involved 240 classes.

3. Mathematics Specialists Program. In its first year of operation this program provided for the employment of 73 mathematics specialists who are used in either a full- or half-time capacity by 22 school districts. This has resulted in 202 classes being taught by specialist teachers.

4. Accelerated Instruction Program. The Department of Education has received applications from 10 school districts proposing to contract with institutions of higher learning in amounts from \$2,500 to \$25,000. All participating districts have agreed to provide information about their projects.

*We recommend approval of the Mathematics Improvement Program as budgeted.* The budget proposes a sum of \$925,000 for the program for 1969-70 to be composed of \$500,000 for the specialized teacher program and in-service training, \$350,000 for specialist teachers and \$75,000 for accelerated programs.

**Subventions for Education  
COMPENSATORY EDUCATION**

**Items 327 and 328 from the General Fund**

Requested 1969-70 -----	\$11,000,000
Estimated 1968-69 -----	11,000,000
Actual 1967-68 -----	8,887,008
Requested increase—None	
Total recommended reduction -----	\$500,000

**SUMMARY OF RECOMMENDED REDUCTIONS**

	<i>Amount</i>	<i>Analysis page</i>
Reduce amount budgeted for research and teacher education projects (described under Support Item 90, page 245 Elementary and Secondary Education Act of 1965, Office of Compensatory Education) -----	\$500,000	891

**GENERAL PROGRAM STATEMENT**

General Fund subventions for compensatory education are comprised of three parts: (1) assistance to school districts for the reduction of elementary pupil-teacher ratios in poverty schools in grades K-6, (2) special research and teacher training projects, and (3) demonstration programs in reading and mathematics for grades 7-9. These programs are authorized by the McAteer Act, Chapter 1163, 1965 Statutes, and Chapter 106, 1966 Statutes.

Federal support for compensatory education programs is authorized by Title I and Title VIII of the Elementary and Secondary Education Act of 1965. Title I of the act provides funds for educational programs for disadvantaged children and is administered by the Office of Compensatory Education within the Department of Education.

The Office of Compensatory Education is responsible for computing individual school district entitlements based on the number of pupils in both the public and private schools of applicant districts. Based on their entitlements, school districts submit applications to the department which are reviewed by the Office of Compensatory Education and referred to the State Board of Education for final action. Title VIII Drop-out Prevention is a new program which is not reflected in the budget document; it is currently administered by the Division of Instruction. Title VI is administered by the Division of Special Schools and Services within the Department of Education.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend that a sum of \$500,000 be deleted from the amount budgeted for research and teacher education projects. The reasons for this recommendation may be found under the analysis of the Elementary and Secondary Education Act and the Office of Compensatory Education on page 245.*

Total subventions for Compensatory Education for 1969-70 are proposed at \$105,548,185 comprised of \$11,000,000 in State General Fund support and \$94,548,185 in federal fund support.

## Compensatory Education—Continued

Under the provisions of Chapter 106, 1966 Statutes, the authorization for two state programs, the reduction of pupil-teacher ratios in poverty schools and demonstration projects in reading and mathematics, expires following the 1969 session. However, the administration proposes to continue the same level of state support for each in the budget year. A sum of \$6,500,000 is budgeted for the reduction of pupil-teacher ratios while a sum of \$3,000,000 is budgeted for demonstration projects in reading and mathematics for grades 7-9. A sum of \$1,500,000 is proposed in the budget year for research and teacher-education projects which is equivalent to the current level of state support.

The federal funds budgeted for the program in 1969-70 are comprised of \$78,954,564 for the regular Title I program, \$6,000,000 for the education of migrant children, about \$3,000,000 for drop-out prevention projects (not reflected in the budget) a sum of \$1,048,841 for the education of handicapped children and a sum of \$8,544,780 for supplemental centers and services.

**Subventions for Education**  
**CHILDREN'S CENTERS**

## Items 329 and 330 from the General Fund

Requested 1969-70	\$18,446,702
Estimated 1968-69	17,446,702
Actual 1967-68	14,467,732
Requested increase \$1,000,000 (5.7 percent)	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

The California Children's Centers Program has two distinct elements: (1) the normal child care centers providing day care and preschool services for children of low income working parents and (2) development centers for mentally retarded and physically handicapped minors, designed to serve as an alternative to residential placement.

These programs grew out of the Child Care Program as created by Chapter 16, Statutes of 1943, which authorized school districts to establish centers and provide day care services to children whose mothers were employed in defense efforts. The program was supported through federal funds made available under the Lanham Act of 1940. Federal support to this program was terminated in 1946 and the State Legislature continued the program on a year-to-year basis. In subsequent years the state established a means test and required parents to contribute toward the operating expenses of the program in accordance with their financial ability. In 1957 the Child Care Program was made a permanent state responsibility and included in the annual budget.

**Development Centers for Normal Children**

The Child Care Program was renamed by Chapter 1717, Statutes of 1965, the "Children's Centers Program" and an educational compo-

**Children's Centers—Continued**

ment was added. In addition, the Legislature, by Chapter 1248, 1965 session, authorized the Department of Education and the Department of Social Welfare to formulate a contractual arrangement to provide preschool services to children whose families were receiving public assistance. This program is administered by the Office of Compensatory Education and is financed on a 75-25, federal-state, matching basis.

School districts participating in the Children's Centers Program are not required to contribute to the program's operational costs. However, the Education Code authorizes the establishment of an override tax for this purpose. Districts are required to provide the facility to house the program, but the Legislature at the 1968 session established the Children's Center Construction Law. This authorizes \$1 million to be used for the acquisition of sites, planning and construction of facilities and the acquisition of equipment to assist local districts in the provision of facilities for the program. The distribution of construction funds is administered by the State Allocation Board. Individual district entitlements are computed on the basis of (1) the proportion of the total state appropriation for operating expense received by the district and (2) the wealth of the district as measured by assessed valuation per unit of average daily attendance.

**Development Centers for Handicapped Children**

Chapter 1248, Statutes of 1965, established the development center program for handicapped minors to provide day care and treatment for children who are not able to attend public school programs due to severe mental retardation or physical impairment. This program is designed to provide competent services to these children to permit parents to engage in work and to reduce the demand for institutional placement. The financing of this program, as modified by Chapter 1538, Statutes of 1967, is based on \$1.75 per attendance hour plus transportation allowances of \$675 per unit of average daily attendance.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the Children's Centers item as budgeted.* The budget includes appropriations totaling \$18,446,702 in General Fund support to the Children's Centers Program in 1969-70. This total is composed of \$14,190,202 and \$3,256,500, or \$17,446,702 appropriated by Item 329 for the operation of normal child care centers and development centers respectively, plus \$1 million appropriated by Item 330 for the construction of normal child care centers. In addition, it is estimated that \$15,003,000 will be received in reimbursements from the Department of Social Welfare to support preschool services to the children of low income families. The elements of General Fund support

to the Children's Centers Program are reviewed in Table 1 for a three-year period.

Table 1  
General Fund Support to the Children's Centers Program

	<i>Actual</i> 1967-68	<i>Estimated</i> 1968-69	<i>Proposed</i> 1969-70
Normal Child Care Centers			
Operational Support -----	\$11,590,202	\$13,890,202	\$14,190,202
Construction -----	--	1,000,000	1,000,000
Development Centers for Handi- capped Minors -----	2,926,481	3,056,500	3,256,500
Total General Fund Support --	\$14,467,732	\$17,446,702	\$18,446,702

Normal Child Care Centers. In the current year the number of normal child care centers has increased from 274 to 310 as a result of a legislative appropriation in Chapter 1372, Statutes of 1968. These centers accommodate 17,521 children. The budget includes an increased appropriation of \$800,000 for this program which would authorize support for approximately 1,000 additional children at the authorized rate of \$0.42 per child-hour. In addition, the budget contains an appropriation of \$1 million to support construction under the Children's Centers Construction Act at the same level authorized for the current year as shown in Table 1.

Development Centers for Handicapped Children. Support for the development center program in the current year totals \$3,056,500. The budget proposes to increase this amount by \$200,000 to \$3,256,500 based on normal expansion of the costs of operating the existing 29 centers which serve 1,020 children.

**CONTRIBUTIONS TO TEACHERS' RETIREMENT FUND**

Item 331 from the General Fund

Requested 1969-70 -----	\$79,000,000
Estimated 1968-69 -----	71,500,000
Actual 1967-68 -----	61,500,000
Requested increase \$7,500,000 (10.4 percent)	
Total recommended reduction -----	None

**GENERAL PROGRAM STATEMENT**

Section 14216 of the Education Code requires an annual state appropriation to fund the currently accruing and unfunded liabilities of the Teachers' Retirement Fund, in providing teachers of the public school systems of the state with retirement allowances.

In 1944 the Legislature, in establishing the State Teachers' Retirement System, recognized that the system is superseded was actuarially unsound and that the assets of the transferred system were insufficient to meet its obligations. The Legislature therefore provided in a declaration of financing policies (Section 14215 of the Education Code) that (a) all benefits in respect to service rendered prior to July 1, 1944,

## Contributions to Teachers' Retirement Fund—Continued

which cannot be met by assets of the State Teachers' Retirement Fund shall be provided from contributions by the state and (b) all benefits for service following July 1, 1944, shall be provided from member contributions and public contributions on an approximately equal basis.

The Retirement Fund presently is operated on an unfunded basis, in which obligations are paid as they become due, from current revenues without a reserve to cover current or future liabilities.

The state must meet the unfunded liabilities of the system as required by law. These state costs will have amounted to approximately 49 percent of all the benefits paid in the three-year period 1967-68 through 1969-70. The school districts' share of the benefits to be paid during that period will average 37 percent, and the accumulated contributions of the retired teachers will meet only 14 percent of the total benefits paid. Table 1 shows the growth of the system's retirement and survivor rolls and the sources of the funds from which the benefits are paid.

Table 1  
Number of Retirees and Survivors Receiving Benefits  
and Source of Benefit Payments

	Actual 1967-68	Estimated 1968-69	Estimated 1969-70
Retired teachers -----	34,480	36,703	39,197
Survivors -----	1,011	1,082	1,158
Source of Funds			
Employee contributions -----	\$19,485,086	\$21,489,968	\$23,158,704
Employer contributions -----	51,110,402	55,620,987	60,248,602
State contributions * -----	69,260,353	74,052,273	79,194,994
Total benefits paid -----	\$139,855,841	\$150,922,228	\$162,602,300

\* State contributions exceed appropriations because of carryover balances available from prior year.

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval as budgeted.*

General Fund support of the Teachers' Retirement Fund by annual appropriation to meet the unfunded liabilities has grown at an average rate of 10 percent each year since fiscal year 1964-65. The system's projection of the state appropriations necessary to fund the benefits in fiscal years 1970-71 through 1972-73, a three-year period, is \$284 million. These increases will result primarily from the growth of the retirement rolls and the increases in unfunded liabilities inherent in the system. Examples of these unfunded liabilities are credit granted for out-of-state service prior to July 1, 1944, the actuarial unsoundness of teacher contributions prior to 1956, and the death benefit provisions for which the state assumes full financial responsibility.

The firm of Peat, Marwick and Mitchell, which is in the process of preparing an actuarial evaluation of the system, estimates that unfunded accrued liability or debt will conservatively amount to \$3.5 billion. Because of the lack of accurate records on service rendered prior to 1956 for current membership, the system believes, and we concur, that, while this evaluation is based on the best information now available, it must be used with caution.



Lack of accurate records on service of members is the major deficiency with which the system is faced. It has prevented the system from developing cost estimates on proposed legislation, and it has resulted in inadequate service to the membership. Until this service record problem is corrected, the system cannot fully utilize the new computer system which was authorized to improve services to the membership and provide accurate and timely cost data. In our analysis of the administrative support budget of the system, we discuss this issue in greater detail. (Analysis page 290)

The courts have ruled that retirement benefits for active or retired employees cannot be reduced or changed except to provide equal or greater benefits because such benefits become a contractual responsibility at the time of employment. Thus, the state is committed to paying the increasing contribution costs for the present membership, such costs being fixed by law for the lifetime of the current membership. By 1990, these costs may reach a plateau and begin to decline because of the reduction in the number of retired teachers whose benefits are based upon the unfunded liabilities referred to above.

**Subventions for Education**

**GRANTS TO TEACHERS OF PHYSICALLY HANDICAPPED MINORS**

**Item 332 from the General Fund**

Requested 1969-70 .....	\$150,000
Estimated 1968-69 .....	150,000
Actual 1967-68 .....	125,627
Requested increase—None	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

To encourage teachers of the mentally retarded and physically handicapped to further their professional education, the Legislature in Chapter 2107, Statutes of 1963, established a program of grants to teachers attending summer school classes at an accredited college or university. The program authorizes county superintendents of schools and school districts to enter into an agreement with certificated teachers to take postgraduate courses leading to a special education credential. Grants are made on the basis of \$50 per unit of college credit for tuition, materials and other expenses for five years or until the course of study is completed. The Superintendent of Public Instruction is required to reimburse participating districts from funds appropriated to the Department of Education.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of this item as budgeted.* In the budget year the Department of Education requests \$150,000 for support of this program, which is the same amount estimated for the current year. In

the summer of 1968 a total of 729 teachers participated in this program. The areas of specialization for the participants are reviewed in Table 1.

Table 1  
Areas of Specialization of Participants

Mentally retarded .....	611
Orthopedically handicapped .....	67
Visually handicapped .....	12
Deaf .....	21
Speech correction .....	18
Total participants .....	729

**Subventions for Education**  
**FREE TEXTBOOKS**

**Item 333 from the General Fund**

Requested 1969-70 .....	\$21,396,243
Estimated 1968-69 .....	21,001,430
Actual 1967-68 .....	19,145,555
Requested increase \$394,813 (1.9 percent)	
Total recommended reduction .....	\$15,000

**SUMMARY OF RECOMMENDED REDUCTIONS**

	<i>Amount</i>	<i>Analysis page</i>
Delete Commercial Warehouse Storage .....	\$15,000	907

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

1. Departure from Schedule of Future Adoptions

We recommend that the Legislature request the State Board of Education to submit a schedule of the subject area(s) for which the board is requesting an appropriation for a new adoption. (Analysis page 902)

2. Policy Option in the Reprint Budget

Consideration should be given to the potential savings in ordering textbook reprints in two-year increments. (Analysis page 906)

3. A Use Tax on the Leasing of Textbook Film Positives

We recommend legislation to exempt the State Board of Education from being assessed a use tax on the leasing of textbook film positives. (Analysis page 906)

**GENERAL PROGRAM STATEMENT**

California's Constitution, Article IX, Section 7, requires that the State Board of Education provide the state's elementary schools with a free textbook program. There are three stages in the board's process of providing these textbooks to the schools. First, the board selects and adopts the textbooks. Second, the board acquires the adopted textbooks. Third, the textbooks are distributed to the schools prior to the beginning of the new school year. This process is administered for the board by the Department of Education.

Free Textbooks—Continued

Selection and Adoption of Textbooks

The Constitution provides that the State Board of Education “. . . shall provide, compile, or cause to be compiled, and adopt, a uniform series of textbooks . . . and they shall be furnished and distributed by the state free of cost or any charge whatever, to all children attending the day and evening elementary schools of the state, under such conditions as the Legislature shall prescribe.”

In exercising its authority over the adoption of textbooks for the state’s elementary schools, the board relies heavily on the recommendations of the State Curriculum Commission. The commission consists of the Superintendent of Public Instruction and 12 members appointed by the board on the basis of their professional qualifications as educators. A new commission has been appointed by the board and the terms of the new members begin on March 1, 1969. Hereafter, one-fourth of the commission’s appointed members will be replaced every March 1.

The commission has developed a master plan to program future textbook adoptions. This master plan has received the board’s approval and is outlined in Table 1. Based on this master plan, the commission annually recommends that the board discontinue textbook adoptions in specific subject areas and replace them with new materials. The board generally approves the commission’s recommendations.

Table 1  
Schedule of Future Adoptions

<i>Criteria for new texts to be developed at November meeting</i>	<i>Books to be submitted by June 1</i>	<i>Adoption to be made by board at April meeting</i>	<i>Adoption period to begin July 1</i>	<i>Subject field (grades 1-8 unless specified)</i>
1966	1967	1968	1969	Reading and literature
1967	1968	1969	1970	Mathematics
1968	1969	1970	1971	Social sciences, grades K-4
1968	1970	1971	1972	Social sciences, grades 5-8, foreign languages
1969	1971	1972	1973	Health, music, science
1970	1972	1973	1974	English and related subjects
1971	1973	1974	1975	Reading and literature
1972	1974	1975	1976	Mathematics
1973	1975	1976	1977	Social sciences, grades K-4
1974	1976	1977	1978	Social sciences, grades 5-8, foreign languages
1975	1977	1978	1979	Health, music, science

The subject area for the 1969-70 budget year adoption is mathematics. The 1968 and 1969 schedule of adoption activities for mathematics and social sciences is shown in Table 2.

Table 2  
Schedule of Adoption Activities 1968 and 1969

1. Authorization by State Board of Education for issuance of call for bids in mathematics	<i>Approximate Date</i> November 9, 1967
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## Free Textbooks—Continued

Table 2  
Schedule of Adoption Activities 1968 and 1969—Continued

	<i>Approximate Date</i>
2. Recommendation by State Curriculum Commission to State Board of Education regarding mathematics, consisting of (1) statement regarding nature of textbooks—subject, grade, whether basic or supplementary, and probable basis of distribution—for which it is proposed that call for bids be issued; and (2) criteria for evaluating textbooks	January 12, 1968
3. Publication by Department of Education of Call for bids in mathematics	March 1, 1968
4. Distribution of list of Curriculum Commission advisers	April 1, 1968
5. Submission of mathematics textbooks by publishers to Department of Education, State Curriculum Commission and advisers	June 3, 1968
6. Distribution of rating sheets to Curriculum Commission and advisers	By June 14, 1968
7. Evaluation of mathematics textbooks submitted	June 14, 1968 to November 20, 1968
8. Mailing of bid forms to mathematics publishers	October 11, 1968
9. Preparation of justification for mathematics adoption for transmittal to Department of Finance, Legislative Analyst, Senate Finance Committee, and Assembly Ways and Means	By October 15, 1968
10. Publishers submit bids on mathematics textbooks	By November 6, 1968
11. Curriculum Commission members report evaluations of mathematics books to subcommittee chairman	By November 8, 1968
12. Opening of bids and State Printer's estimates	November 8, 1968
13. Meeting of Curriculum Commission; screening of mathematics textbooks; consideration of criteria for social sciences textbooks, kindergarten-grade 4, and of recommendation to be made to the State Board regarding: (1) nature of textbooks needed—subject, grade, whether basic or supplementary, probable basis of distribution; (2) criteria for evaluating textbooks; and (3) issuance of call for bids	November 20, 21, and 22, 1968
14a. Authorization by State Board of Education for issuance of call for bids in social sciences, kindergarten through grade 4	December 12, 13, 1968
14b. Distribution of teachers editions of basic books in reading and literature and of pupils books and teachers editions of English as a second language	By January 15, 1969
15. Recommendation by Curriculum Commission of mathematics textbooks	Jan. 22, 23, 24, 1969
16. Public hearing for State Curriculum Commission and tentative adoption of textbooks in mathematics	Feb. 13, 14, 1969
17. Publication of call for bids for social sciences textbooks kindergarten through grade 4	March 3, 1969
18. Furnishing of evaluation copies of mathematics textbooks to 50 libraries and to school districts	By March 17, 1969
19. Preparation of preliminary estimate of cost of proposed program in mathematics and budget requirements	By March 17, 1969

## Free Textbooks—Continued

Table 2  
Schedule of Adoption Activities 1968 and 1969—Continued

	<i>Approximate Date</i>
20. Curriculum Commission members furnish Bureau of Textbooks and Publications Distribution names and addresses of advisers for preliminary evaluation of social science books.....	April 15, 1969
21. Distribution of list of Curriculum Commission advisers for social sciences.....	May 1, 1969
22. Recommendation by school districts of textbooks for adoption in mathematics.....	By May 16, 1969
23. Submission of social sciences textbooks to Department of Education, Curriculum Commission, and advisers.....	June 2, 1969
24. Estimation by Department of the cost of acquiring recommended mathematics program and transmittal of report to State Board of Education and to State Curriculum Commission.....	June 12, 1969
25. Final adoption of textbooks in mathematics by State Board of Education.....	June 12, 13, 1969
26. Final recommendation of social sciences books.....	November 19, 20, 21, 1969
27. Textbooks in mathematics go into adoption.....	July 1, 1970

Upon approving the commission's recommendation for a new adoption the board issues a call for bids. The call for bids includes a comprehensive statement of the material to be covered by the new adoption. The publishers respond to the call for bids by submitting new material for review by the commission. The commission evaluates this new material with the help of a large number of consultants who have backgrounds in elementary education or in the subject matter under consideration. The publishers bid, and the State Printer estimates his production costs, on those textbooks which have been submitted. Thus, the commission has knowledge of the potential cost of each of the textbooks in advance of making its final selection. When the final selection is accomplished, the board holds a public hearing to receive formally the commission's recommendation of the materials and the distribution ratios for the new adoption.

The Constitution requires that a "uniform series" of textbooks be adopted by the board. All students of similar grade and ability level must use the same basic textbook in a given subject under this single-track system. The board can adopt more than one basic textbook per subject and grade level under this system so long as the board designates the ability level of the students for whom each basic textbook has been adopted. This is referred to as a "track" system of adoption. The board has the authority to augment these basic textbooks by adopting supplementary textbooks which are used to add insight, background, and, generally, to augment the subject matter covered in the basic textbooks. To aid the board in making the distinctions discussed above, the commission's recommendation specifies by grade and ability levels those textbooks which are recommended for adoption as basics, as supplementaries and as teachers' manuals.

The board makes a tentative adoption of the textbooks recommended by the commission with such modifications as the board may direct. The

**Free Textbooks—Continued**

Department of Education acting at the direction of the board then places this tentative adoption on display in at least 50 public libraries for a period of 60 days. The board finalizes a new adoption of basic textbooks and teachers' manuals at the end of that 60 days.

**Multiple Adoption of Supplementary Textbooks**

Chapter 917, Statutes of 1968, changed the adoption of supplementary textbooks from a single to a multiple system. In essence, the multiple adoption system gives the school districts a voice in the selection of supplementary textbooks. Instead of having to accept the supplementary textbooks at distribution ratios adopted by the State Board of Education, school districts can now select supplementary textbooks from a list of acceptable titles and establish the distribution ratios for their respective districts.

The mechanics of this multiple adoption process for supplementary textbooks is as follows. The department purchases and distributes one complete set of the tentative adoption to each city school district and, where there are districts which do not qualify as city school districts, to county superintendents of schools. The department also computes each district's textbook credit. This textbook credit is equal to the estimated cost of all the supplementary textbooks which would be available to a district under the conditions of a recommended distribution schedule established by the board. A district may select any supplementary textbook in any number from the list of those tentatively adopted without regard to the recommended distribution schedule established by the board, except that the total cost of its selection shall not exceed the amount of its computed textbook credit. If a total of less than 25,000 copies of a given supplementary textbook is selected on a statewide basis, it will not be adopted by the board. The board finalizes its adoption of supplementary textbooks subsequent to receiving the selections of the districts.

The board adopts all textbooks for a period of at least four years and for not more than eight years. At the end of the adoption period, the board may extend the adoption period for not less than one year nor more than four years. Thus, the maximum adoption period possible is 12 years.

**Acquisition of Textbooks**

When the adoption process is complete, textbooks are manufactured in the State Printing Plant through a lease agreement with the publishers which permits the state to print the text in return for a "royalty," generally assessed on a per-copy basis. However, in cases where the right to print is withheld by the publisher of an adopted text or the leasing of printing plates is not competitive with the finished book price, the state purchases the completed text directly from the publisher.

**Distribution of Textbooks**

Completed textbooks are delivered by publishers or the State Printing Plant to the State Textbook Warehouse in Sacramento for shipment to school districts. Between 85 and 90 percent of the year's total

## Free Textbooks—Continued

shipments are made from May to August to insure that books will be available when schools open in September. Distribution of texts is based on local orders and dispersement ratios established by the State Board of Education. Table 3 summarizes distribution for recent years and estimates the 1968-69 and 1969-70 totals.

Table 3  
Number of Texts Distributed

1963-64	-----	9,412,060
1964-65	-----	10,404,140
1965-66	-----	11,335,771
1966-67	-----	7,525,788
1967-68	-----	21,113,675
1968-69 (est.)	-----	17,000,000
1969-70 (est.)	-----	23,581,250

## ANALYSIS AND RECOMMENDATIONS

## Selection and Adoption of Textbooks

## Departure from Schedule of Future Adoptions

*We recommend that the Legislature request the State Board of Education to submit a schedule of the subject area(s) for which the board is requesting an appropriation for a new adoption. We further recommend that the Legislature disapprove an appropriation for a new adoption until the board complies with this request.* Each year the Legislature appropriates funds for a new textbook adoption based on its estimated cost. The subject areas for the new adoption are determined by the State Board of Education through its approval of a schedule of future adoptions. The new adoption presently under consideration is in the subject area of mathematics as was shown in Table 1.

There is no restriction which would keep the board from departing from its schedule of future adoptions after the Legislature has approved the budget. This means that appropriations based on estimates of the cost of regularly scheduled new adoptions may be used by the board to fund new adoptions in any subject area. The 1969-70 fiscal year appropriation request for the new adoption is an estimate based on the cost of a new mathematics adoption. However, the board is currently in the process of adopting a new supplementary eighth grade history textbook for which a portion of the funds appropriated for the new mathematics textbook adoption may be used.

The reallocation by the board of a portion of the 1969-70 appropriation for a new supplementary eighth grade history adoption would dilute the funds available for the mathematics adoption. We believe that the Legislature should be fully informed on the intended uses of any appropriation requested for a new adoption.

In recent years this office has recommended that before any action is taken on the amounts included in the Budget Bill for new adoptions, the State Board of Education should present to the Legislature a com-

## Free Textbooks—Continued

plete justification for the proposed new adoptions with specific answers to the following questions:

1. Reasons for discontinuing the present adoption.
2. Changes in the educational requirements that would necessitate an increase in:
  - a. distribution ratios
  - b. the number of basic books to be supplied
  - c. more elaborate or enriched textbook material
3. Necessity for use of supplementary books.
4. Necessity for adoption of textbooks in areas not previously included in the state textbook program.

If the board intends to use new adoption appropriations for subject areas other than those presented to the Legislature, then either the appropriation request for the regularly scheduled new adoption exceeds the needs of that adoption, providing surplus funds with which new adoptions in other subject areas may be financed, or the quality of the regularly scheduled new adoption must be diluted to provide funds to finance new adoptions in unscheduled subject areas. We believe that by requesting the State Board of Education to submit a schedule of the subject area(s) for which the 1969-70 appropriation for a new adoption is being requested, the Legislature will be assured of the board's intended use of this appropriation. We also believe that this action would insure adequate legislative review of the needs of the free textbook program in that the board would be required to bring the Legislature's attention the subject area(s) of each new adoption in order to receive appropriations for such adoptions. A discussion of the importance of these considerations with regard to a new supplemental eighth grade history textbook adoption follows.

There are particular fiscal implications we believe the Legislature might wish to consider in connection with this additional supplementary adoption. The first year manufacture cost would be approximately \$350,000. The budget request for new adoptions is approximately \$6.1 million of which approximately \$1.2 million would be available for supplementary textbooks. This means that a new supplementary eighth grade history textbook adoption could use 29 percent of the budget amount available for supplementary textbooks in mathematics. In addition, the law requires that United States history textbooks tentatively adopted must be displayed in 200 public libraries as opposed to 50 for textbooks in other subject areas. Thus, the display costs of a new supplementary eighth grade history textbook adoption, which deals with the subject area of United States history, would be four times as great as for textbooks in other subject areas. Because the proposed history adoption is for a supplementary textbook, the state must also provide a complete set of the tentatively adopted textbooks to all city school districts and to all county superintendents of schools which have districts within their county which do not qualify as city school districts. It is not possible at this time to estimate precisely the cost to the state of purchasing the books which would be used for display and for sam-



**Free Textbooks—Continued**

ples, but it could be as high as \$20,000. Funds to finance this cost could also come from the \$1.2 million available for supplementary textbooks in mathematics.

The board's schedule of future adoptions provides for a new social sciences adoption for grades five through eight in 1972. Therefore, this proposed supplementary eighth grade history adoption would be in the schools for only two years before the board would be adopting new textbooks for the social sciences which includes history. We believe that these considerations are of importance to the Legislature in considering the budget for new adoptions for the free textbook program.

**Cost Implications of Textbook Adoption**

*We recommend approval of the \$6,141,521 for new adoptions as budgeted with the provision that the State Board of Education fulfill the request of the Legislature as recommended above.* The Governor's Budget for 1969-70 contains \$6,141,521 for the proposed new adoption in mathematics. This figure is an estimate of funds needed to finance the new adoption. This estimate is based on (1) the expenditure for the previous mathematics adoption adjusted to reflect increases in the costs of labor and materials, (2) enrollment growth and (3) an increase in the cost of supplementary textbooks due to the implementation of the multiple adoption system for supplementary textbooks as required by Chapter 917, 1968 Regular Session, discussed above.

The Department of Education estimates the cost of new adoptions at \$9,217,409 based on the textbooks and their distribution ratios as tentatively adopted by the State Board of Education. However, the commission's recommendation represents a substantial increase in the level of service over the mathematics adoption of 1964. This is not consistent with Section 9301 of the Education Code (as amended by Chapter 917, 1968 Regular Session) which reads, in part, that "the Legislature considers that the annual expenditure for the provision of state-supplied textbooks should not be materially expanded over the existing levels of support." Therefore, we recommend that the Legislature approve the \$6,141,521 as budgeted for new adoptions in mathematics because this amount is based on the expenditure for the previous mathematics adoption.

Table 4 demonstrates the estimated expense for new adoptions and total textbook expense in recent years. The annual expenditure for textbooks has fluctuated considerably due to a wide variation from year to year in the size of new adoptions and the requirements for reprints.

## Free Textbooks—Continued

Table 4  
Annual Textbook Expenditures

	<i>Subject area of new adoptions</i>	<i>Estimated expenditure for new adoptions</i>	<i>Total textbook expense</i>
1960-61	Reading and Literature -----	\$6,085,957	\$11,736,746
1961-62	Reading and Literature -----	1,552,923	6,876,166
1962-63	History and Geography (5 & 8) -----	1,374,660	8,699,919
1963-64	Mathematics (4 & 7) Social Studies (6 & 7) -----	1,111,000	10,906,962
1964-65	Arithmetic (3, 6 & 8) Social Studies (4) -----	2,593,349	11,980,511
1965-66	None -----	--	7,720,420
1966-67	Science Health Social Science (2, 3 & 5) -----	13,279,968	17,525,648
1967-68	Music, English and related subjects -----	8,099,653	21,260,092
1968-69	Reading and Literature -----	11,000,000	21,001,430
1969-70	Mathematics (proposed) -----	6,141,521	21,896,243

While annual state expenditures have varied substantially during the years listed above, the number of basic and supplementary titles in adoption have consistently increased. Table 5 demonstrates the number of textbook titles in adoption in recent years.

Table 5  
Textbooks Titles in Adoption

<i>Year</i>	<i>Titles in adoption</i> <sup>1</sup>
1960-61 -----	305
1961-62 -----	360
1962-63 -----	359
1963-64 -----	391
1964-65 -----	392
1965-66 -----	445
1966-67 -----	445
1967-68 -----	561
1968-69 -----	654
1969-70 -----	731

<sup>1</sup> Includes teachers' editions.

The inconsistency between the variance in annual budgets for the free textbook program and the steady increase in the number of textbooks in adoption results from the fact that each newly adopted series of textbooks has cost implications over the life of that adoption. This is because a large portion of textbooks used by students over the life of an adoption are produced with funds appropriated for the first year costs. First year manufacturing expenditures do not include royalty charges for textbooks produced in the State Printing Plant because these royalty charges are assessed in the year the books are distributed to the schools. Also, there are annual expenditures over the life of an adoption for reprinting as required by increasing enrollments, textbook damage, wear and loss.

## Free Textbooks—Continued

## Acquisition of Textbooks

## Policy Option in the Reprint Budget

Consideration should be given to the potential savings in ordering textbook reprints in two-year increments. For the budget year the Department of Education estimates that additional purchases and reprints of previous textbook adoptions will cost \$7,240,467. The Governor's Budget provides only \$6,338,488 for this item. The difference is \$901,979.

The \$901,979 difference between the department's estimates and the budget is caused by disagreement over the cost of reprints. The department has estimated the costs of reprints based on producing a two-year supply for the subject areas of science and reading and literature. By producing a two-year supply in these subject areas the department would avoid the duplication in the following year of the expensive composition cost of printing these textbooks. The reduction of the reprint budget for 1969-70 by \$901,979, for example, would permit the production of only one year's supply of reading and literature reprints instead of the two-year supply as planned. Based on experience the State Printer estimates that the composition cost for reprints is about 60 percent of the composition cost for printing a new adoption. Composition costs consist of plate preparation, machine makeready and the necessary quality controls. These costs for printing the new adoption in reading and literature were \$838,600 and 60 percent of this amount is \$503,160. This composition cost for reading and literature reprints is applicable every time the presses must be set up again to produce more reprints. Therefore, the 1970-71 budget would have to include a similar amount of \$901,797, plus about \$503,160 for setting up the presses again, in order to produce that year's supply of reading and literature reprints. In other words, the reduction of the reprint budget in 1969-70 is not an economy but a deferment of expenditure which would cost an additional amount of approximately \$500,000 in 1970-71. We believe that the Legislature should consider the fiscal implication of approving the Governor's Budget for reprints which would defer the expenditure of \$901,979 and add the very substantial additional costs which will be required by the rerun. If these costs are accurately estimated at \$500,000 we believe the two-year printing is justified.

## A Use Tax on the Leasing of Textbook Film Positives

*We recommend legislation to exempt the State Board of Education from being assessed a use tax on the leasing of textbook film positives which will prevent a real cost to the state of between \$20,000 and \$100,000 annually.* The State Board of Equalization has tentatively ruled that the State Board of Education must pay a use tax on the leasing of textbook film positives. The film positives are leased from publishers and are used by the State Printer to make the plates used to print textbooks. The State Board of Equalization has indicated that, because Chapter 2, First Extraordinary Session, Statutes of 1965, amended the legal definition of a "purchase" to add "any lease of

## Free Textbooks—Continued

tangible personal property," leases of film positives by the State Board of Education for textbook production in the State Printing Plant are a "purchase" and subject to the five percent use tax.

Assuming that the Board of Education will be assessed for back taxes and assuming that the full amount of the lease payments (royalties) are assessed, there would be a one-time budget item of about \$1.35 million, without interest and penalties. These taxes have accrued since August 1, 1965. The use tax was four percent for the fiscal years 1965-66 and 1966-67 and five percent thereafter (see Table 6).

Table 6  
Computation of Use Tax on Textbook Royalties

Year	Royalty	Tax
1965-66 -----	\$3,624,773	
1966-67 -----	2,146,320	
	<hr/>	
	\$5,771,093 × 4% =	\$230,844
1967-68 -----	\$8,255,909	
1968-69 (est.) -----	5,806,667	
1969-70 (est.) -----	8,345,555	
	<hr/>	
	\$22,408,131 × 5% =	\$1,120,406
		<hr/>
		\$1,351,250

The State Board of Education has protested the imposition of this tax to the Attorney General. Depending on when a settlement of the legal issues can be reached, this item of \$1.35 million would be budgeted in 1970-71 or in a later year. In addition, this tax assessment will result in an annual cost to the state in the amount of \$100,000-\$400,000 depending on the amount of royalties paid in any one year.

Part of the assessment of a use tax against the State Board of Education would be a real cost to the state. One-fifth of the use tax must be transferred to city/county governments. Therefore, there would be a one-time cost to the state of approximately one-fifth of \$1.35 million or \$270,000. In addition, the state would have the ongoing cost of paying the city/county governments one-fifth of the annual amount of this use tax. This amount could range between \$20,000 to \$100,000 annually. The remaining four-fifths of the tax would revert to the state. We recommend that the Legislature exempt the State Board of Education from being assessed a use tax on the leasing of textbook film positives.

## Distribution of Textbooks

## Cost Implications of Textbook Distribution

We recommend deletion of \$15,000 for warehouse storage in commercial facilities. The expenditures related to textbook distribution for the budget year are as indicated in Table 7.

## Free Textbooks—Continued

Table 7  
1969-70 Expenditure Estimates for Textbook Distribution

Personal Services—State Textbook Warehouse		
Salaries and Wages -----	\$122,034	
Staff Benefits and Workmen's Compensation -----	16,000	
Total Personal Services -----		\$138,034
Operating Expense		
General expense -----	\$200	
Communications -----	12,820	
Traveling—in-state -----	1,100	
Freight cartage and expenses -----	275,000	
Shipping supplies -----	95,000	
Utilities -----	9,625	
Rent—warehouse -----	73,200	
Warehouse storage -----	15,000	
Equipment -----	640	
Total Operating Expense -----		\$481,745
Royalties -----		8,345,555
Total Expense -----		\$8,965,334

The warehouse storage item under Operating Expense in Table 7 represents an appropriation for rental of an estimated maximum of 26,650 square feet of commercial warehouse space. However, in January of the current year an addition to the State Textbook Warehouse was opened. This addition provides about 40,000 square feet more storage space in state facilities and brings the total available storage space in the State Textbook Warehouse up to 123,000 square feet. We believe that this addition has eliminated the need for commercial warehouse space. Therefore, we recommend the deletion of \$15,000 for warehouse storage in commercial facilities.

**Royalty Payments**

*We recommend approval of this item as budgeted.* Royalty payments are made on the basis of the number of copies actually distributed. Therefore, royalties are not paid until the year in which the textbooks are distributed. The budgeted amount for royalties of \$8,345,555 (see Table 7) represents an estimated total textbook distribution in 1969-70 of 23,581,250 copies. This estimate includes the new reading and literature adoption of 14,653,000 copies which will be acquired in the current year but distributed in the budget year prior to the opening of schools in September of 1969. The balance of 8,928,250 copies represents reprints of previous adoptions which also will be distributed in the 1969-70 budget year.

**Subventions for Education  
ASSISTANCE TO PUBLIC LIBRARIES**

**Item 334 from the General Fund**

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Requested 1969-70 .....	\$1,200,000
Estimated 1968-69 .....	1,200,000
Actual 1967-68 .....	800,000
Requested increase—None	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The Public Library Services Act of 1963 (Chapter 1802) is designed to improve local library services by encouraging the establishment of cooperative library systems. The program originally authorized three types of grants; planning grants and establishment grants designed to encourage local units to form cooperative systems, and per capita grants to partially defray the cost of improved services provided by the regional library systems. Chapter 97, 1966 Statutes, amended the program by eliminating the planning grant and by establishing an equalization aid formula for the allocation of state support.

The amendments also modified a provision of the law which limited state support to a maximum of 2 percent of the total operating expenses of California's public libraries from funds received from local sources and substituted a sliding scale limitation which increases in annual increments from 6 percent in 1967-68 to 10 percent in 1969-70. Currently there are 15 multiple library systems in operation in California.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the item as budgeted.* A sum of \$1,200,000 is proposed for subventions to local libraries in 1968-69 which is identical to the current level of state support.

**Subventions for Education  
VOCATIONAL EDUCATION**

**Item 335 from the General Fund**

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Requested 1969-70 .....	\$1,030,271
Estimated 1968-69 .....	1,080,271
Actual 1967-68 .....	917,904
Requested decrease \$50,000 (4.6 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

This item provides General Fund support for reimbursements to school districts for vocational education programs and for the state's share of the cost of the Manpower Development and Training Pro-

Vocational Education—Continued

gram. Under the allocation procedures for reimbursements to school districts for vocational programs, the costs of state level administration are first deducted from the total amount appropriated. The balance is then distributed to districts maintaining secondary schools for supervision and teacher training. To qualify for these funds, school districts must maintain approved vocational education courses in such areas as industrial education, homemaking education and business education. Those programs are discussed in greater detail under the support item for vocational education.

The item also includes matching funds to meet the 10-percent state matching requirement of the Manpower Development and Training Act. Chapter 1371, 1968 Statutes, appropriated a sum of \$50,000 for the current year and a sum of \$300,000 for each of the following two years to assist school districts to establish high school work experience programs. We understand that to date the \$50,000 appropriation has not been used due to the unavailability of additional federal funds for high school work experience programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this item as budgeted. General Fund support for vocational education subventions is proposed at \$1,030,271, a decrease of \$50,000 below the current level. This reduction is due to the fact that the estimated expenditures for 1968-69 include a sum of \$50,000 authorized by Chapter 1371 for work experience programs, whereas the proposed expenditures for 1969-70 exclude the sum of \$300,000 appropriated for the program inasmuch as the sum of \$300,000 is handled as a separate appropriation. The amount of \$1,030,271 proposed for this item is comprised of a sum of \$230,271 for the Supervision and Teacher Training Program and a sum of \$800,000 for the Manpower Development and Training Program; both of these sums are equal to the current level.

Health and Welfare Subvention

MEDICAL FEE AND RELATED SERVICES COST INCREASES

Item 336 from the General Fund

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Requested 1969-70 (Augmentation)	-----	\$10,000,000
Total recommended reduction:	-----	Recommendation pending

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GENERAL PROGRAM STATEMENT

The 1969-70 Governor's Budget has included no specific allowances for general revised fee and rate schedules in medical and related services. This item however, proposes an appropriation of \$10 million from the General Fund to be matched by \$8,418,000 in federal funds to provide for various such cost increases.

**Medical Fee and Related Services—Continued**

Programs affected include Medi-Cal, Crippled Children's Services, Mental Retardation Services, Vocational Rehabilitation Services, Old Age Assistance, Aid to the Blind, Aid to the Totally Disabled, Adult Protective Services and other programs administered by the Departments of Youth Authority, Corrections, and Mental Hygiene.

Services consist of those provided by medical doctors, dentists, optometrists, podiatrists and other related professions; devices such as prosthetics, hearing aids, eye appliances, etc.; and care provided by hospitals, nursing homes, board and care facilities, family care, and foster homes.

**ANALYSIS AND RECOMMENDATIONS**

*We withhold recommendation on the proposed \$10 million augmentation for medical fee and related services cost increases pending a review of more adequate data.*

On the basis of information provided in the program budget and from the various state departments we have been able to determine that on a tentative basis the proposed funds are to be used as outlined below.

- (1) Department of Health Care Services: \$8 million, (\$4 million federal funds, \$4 million General Funds). The proposed distribution of this amount includes \$3 million to raise dental fees and \$4 million for increased nursing home fees. Approximately \$1 million is proposed for other related services including podiatrists, optometrists, etc.
- (2) State Department of Public Health: Approximately \$120,000 of General Fund money would be used for increased payment for medical doctors serving the crippled children's program.
- (3) Department of Youth Authority: An amount of \$115,000 is proposed to increase foster home care payments.
- (4) State Department of Social Welfare: \$9,183,000, (\$4,118,000 General Fund, \$4,765,000 federal funds). The tentative proposed distribution of this amount includes \$4.4 million to supplement the grant for board and home care and \$4.6 million dollars to increase the rate for family care facilities providing care to on-leave mental patients. A sum of \$183,000 is estimated to increase the fees paid to out-of-home medical care facilities.
- (5) \$1,000,000—unspecified: The proposed use of this amount is for a statewide fee schedule increase.

The program budget states that the proposed distribution may be adjusted as better data becomes available. In talking with various agencies we have not been able to relate the anticipated need and the amount budgeted. We cannot make a recommendation on an amount of this magnitude without more specific information.



**CALIFORNIA MEDICAL ASSISTANCE PROGRAM****Items 337 and 338 from the General Fund**


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Requested 1969-70 .....	\$383,395,793
Estimated 1968-60 .....	336,000,000
Actual 1967-68 .....	208,086,833

Requested increase \$47,368,390 (14.1 percent)

Total recommended reduction—recommendation withheld pending spring review of caseload and utilization estimates.

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**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

- (1) General Fund Appropriation  
We recommend no action on this appropriation until the spring caseload and utilization reestimates are made. (Analysis page 913)
- (2) Field Offices Bureau  
We recommend that 303 positions of the Field Offices Bureau be deleted and that the Administration of the Medi-Cal consultant function remain in the counties as it has been constituted. Analysis page 924)
- (3) Data Processing Bureau  
We recommend deletion of six positions for the Data Processing Bureau. The proposed function of this bureau should be included in the total management system study. (Analysis page 927)
- (4) Personnel Bureau  
We recommend the deletion of two positions proposed for the Personnel Bureau. The elimination of the Field Offices Bureau eliminates the workload justification of these two positions. (Analysis page 928)

**GENERAL PROGRAM STATEMENT**

The California Medical Assistance Program was initiated on March 1, 1966, as a result of legislation enacted in the Second Extraordinary Session of the 1965 Legislature. The program superseded the Public Assistance Medical Care (PAMC) and Medical Assistance for the Aged (MAA) programs which had existed previously.

The program provides medical assistance to families with dependent children, to the aged, blind, and permanently and totally disabled individuals whose income and resources are either insufficient to meet the cost of necessary medical services or are so limited that their application toward the cost of such care would jeopardize the person's or family's future minimum self-maintenance and security.

The total California Medical Assistance Program (Medi-Cal) cost has three component parts, (1) cost of care, (2) the county option and (3) program administration. Cost of care includes the payment for medical care provided by physicians, dentists, hospitals, nursing homes, etc., to recipients of public assistance and the medically indigent. The county option cost is that which is paid by both the state and the county for

**California Medical Assistance Program—Continued**

provision of medical care to county indigent patients in county hospitals. Administration is the cost of administering the program which is carried out by the state, the counties and the fiscal intermediaries. The fiscal intermediaries, Blue Cross North, Blue Cross South, and Blue Shield, process and pay all the claims for payment submitted by providers of care.

Funding is provided by the federal government in the amount of approximately 50 percent of the total cost of care. The state and county governments share the remainder in the amounts computed under various provisions of the Welfare and Institutions Code.

The estimated total cost of care and administrative expenses for the 1969-70 fiscal year is \$1,059,587,377. It is estimated that an average of 1,809,200 individuals will be certified to receive care under the Medi-Cal program during the 1969-70 fiscal year.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend that no legislative action be taken on the appropriations proposed for the Medi-Cal program until the spring, 1969, case-load and service utilization reestimates are made and reviewed by the Departments of Health Care Services, Social Welfare, Finance, and the Office of the Legislative Analyst.*

The budget proposes two appropriations in the total amount of \$383,395,793 for the 1969-70 fiscal year from the General Fund to the Health Care Deposit Fund. One appropriation is a "program augmentation" of \$27,403 and the other is the basic appropriation of \$383,368,390. For purposes of this analysis the two appropriations will be discussed as a single total.

The General Fund total is proposed to increase 14.0 percent over the amount estimated to be expended during the current fiscal year. All state and county funds which are appropriated for the Medi-Cal program are transferred into the Health Care Deposit Fund along with the federal funds allocated to California for that program. Included within the \$383,395,793 is \$45 million for the state share of the county option program, which guarantees state participation in the cost of care for medically indigent persons who are not otherwise covered by the basic Medi-Cal program.

The total program cost from all sources for the 1969-70 fiscal year is estimated to be \$1,059,587,377, an increase of \$112,935,762, or 11.9 percent, over the current fiscal year.

Table 1 shows total expenditures by type of service for the past, current and budget fiscal years.

## California Medical Assistance Program—Continued

Table 1  
Expenditures by Type of Service

Type of service	Modified accrual		Service year
	1967-68 Actual	1968-69 Estimated	1969-70 Estimated
Physicians' Services <sup>a</sup> -----	\$108,541,013	\$150,565,500	\$164,370,500
Prescription Drugs -----	41,875,699	52,709,600	56,623,300
Dental Care -----	23,608,612	41,420,900	45,156,100
County Hospitals -----	101,434,952	123,881,400	137,071,000
Other Hospitals -----	82,049,206	134,298,800	165,359,100
State Hospitals <sup>c</sup> -----	18,382,000 <sup>b</sup>	47,336,800	56,123,600
Nursing Homes -----	135,687,732	175,140,500	195,783,900
Other Services -----	19,622,893	37,837,888	41,575,100
Title XVIII (B) Buy-in -----	13,815,008 <sup>b</sup>	15,311,500	15,789,000
Less: Savings from Medi-Cal Consultants -----	-	-	-3,200,000
<b>Total Cost of Care</b> -----	<b>\$545,017,115</b>	<b>\$778,552,888</b>	<b>\$874,651,600</b>
Administration -----	28,065,176	36,626,015	39,581,866
Cost of carrying out provisions of Section 14150.1, Welfare and Institutions Code (County option) -----	133,099,463	149,972,712	157,553,911
<b>Totals</b> -----	<b>\$706,181,754</b>	<b>\$965,151,615</b>	<b>\$1,071,787,377</b>
Less services not an obligation of the fiscal year (Chapter 1421, Statutes of 1967) -----	-	-77,900,000	-90,100,000
Add service obligations from prior fiscal year (Chapter 1421, Statutes of 1967) -----	-	59,400,000	77,900,000
<b>Totals, Program Cost</b> -----	<b>\$706,181,754</b>	<b>\$946,651,615</b>	<b>\$1,059,587,377</b>

<sup>a</sup> Includes hospital-based physicians' services.

<sup>b</sup> County hospitals, state hospitals and Title XVIII (B) Buy-in are fully accrued.

<sup>c</sup> Includes expenditures for 1969-70 and 1970-71 reflecting the coverage of mentally retarded patients in the mental hospitals.

Enactment of Chapter 1421, Statutes of 1967, provided that beginning with the 1967-68 fiscal year expenditures are to be reported on a modified accrual basis. This differs from the 1966-67 fiscal year when expenditures were reported on a full accrual basis. Expenditure schedules shown in Table 1 for the 1968-69 and 1969-70 fiscal years are adjusted to reflect the effect of modified accrual and represent actual budget requirements.

#### Estimating Cost of Benefits

Since the inception of the Medi-Cal program in March, 1966, there has been difficulty in estimating and projecting caseloads and program costs. Several factors have caused this, and they continue to create budgetary estimating problems.

In order to estimate future expenditures it is essential to know on a timely basis the various elements that comprise past and current expenditures. In the Medi-Cal program it has been very difficult to identify past and current expenditures for several reasons. One has been the lag between the time service is provided by a vendor and the time his claim for payment is submitted and paid. Prior to July 1, 1968, a provider of service had up to six months in which to bill the program for services rendered. Some categories of vendors took the full six months. This was particularly true of the county hospitals.

California Medical Assistance Program—Continued

On July 1, 1968, the six month period was shortened to two months as a result of legislation enacted during the 1967 session. Thus, vendors now have two months after providing service in which to bill the program. During the current fiscal year, 1968-69, many county hospitals have been given an extension beyond the two month billing requirement in recognition of their inadequate accounting systems. Therefore, the lack of current information severely limits expenditure projections.

1967-68 Estimates, Reestimates and Actual Cost

That lack of current information can make it difficult if not impossible to estimate expenditures with any real accuracy and is strikingly demonstrated for the 1967-68 fiscal year Medi-Cal program, as shown in Table 3.

Table 3  
Various Estimates and Actual Cost of Medi-Cal Program  
1967-68 Fiscal Year

	Original estimate December, 1966 (millions)	Revision of estimate in 1968-69 budget (made Dec. 1967) (millions)	Revision of estimate Feb. 1968 (millions)	Revision of estimate May 1968 (millions)	Actual cost 1967-68 (millions)
Total program cost ----	\$346.1	\$824.6	\$781.8	\$748.9	\$706.7
General Fund (est.) ----	275.4	274.0	260.0	232.7	208.1

The table clearly shows that in February and May, 1968, after the fiscal year was half over, the reestimates were significantly above the final actual cost. Some part of this discrepancy may have been because county hospitals, particularly the largest, Los Angeles County Hospital, were late in their billings, with the result that these are finally reflected in the 1968-69 reported expenditures.

It may also have been due in part to the fact that as a result of the high cost estimate at the start of the 1967-68 fiscal year the Governor announced cutbacks in the Medi-Cal program. Even though the cutbacks did not go into effect pending a court determination, it is apparent that vendors were hesitant to provide some services in the fall of 1967 for fear of not being compensated. Although the cutbacks never did go into effect because the court declared them illegal, it is possible that some services were decreased and costs reduced as a result of the announcement.

1968-69 Estimates and Reestimates

Table 4  
Various Estimates of Cost of Medi-Cal Program  
1968-69 Fiscal Year

	Original budget estimate, Dec. 1967 (millions)	Revision (Appropriated) May 1968 (millions)	Current estimate Dec. 1968 (millions)
Total program cost -----	\$1,077.3	\$948.3	\$946.6
General Fund -----	402.0	336.0	336.0

## California Medical Assistance Program—Continued

Table 4 compares the original and reestimates for 1968-69. Although it appears that the \$336 million General Fund money appropriated in the 1968 Budget Bill will be sufficient to fund the program, the details that comprised the basis upon which it was originally budgeted appear to have changed a great deal since that time. An example of this is that within the \$336 million, \$60.5 million was originally budgeted for the county option program. However, the May reestimate indicated that \$50.5 million would be adequate and now the 1969-70 budget indicates that \$40 million will suffice for the current fiscal year.

Table 5 shows that there have been variations in estimated cost of care for the current fiscal year. Even though the latest estimate is only \$12,910,288, or 1.7 percent, higher than the May, 1968, reestimate, the variations by service category are considerable. In May an unknown factor was the extent to which the cost of care for the mentally retarded in the state hospitals would be reimbursed from the program. This accounts for a \$29.3 million difference. The other differences result from having later, more timely information upon which estimates can be made.

Table 5  
Original Estimate and Reestimates for Cost of Care Categories  
1968-69 Fiscal Year

	<i>Printed 1968-69 budget</i>	<i>May 10, 1968 reestimate</i>	<i>Reestimate in Governor's 1969-70 budget</i>
Physicians' services ----	\$191,643,800	\$165,295,100	\$150,565,500
Prescription drugs ----	55,399,800	50,153,100	52,709,600
Dental care -----	47,201,700	44,305,500	41,420,900
County hospitals -----	106,082,434	101,964,600	123,881,400
Other hospitals -----	152,297,300	119,360,700	134,298,800
State mental hospitals--	18,008,083	18,008,100	47,386,800
Nursing homes -----	233,016,200	184,343,200	175,140,500
All other services-----	43,025,700	39,746,100	37,837,888
Nursing home adjustment -----	27,000,000	25,900,000	-
Title XVIII (B) Buy-In -----	16,258,800	16,561,200	15,311,500
Total Cost of Care (All Funds) -----	\$889,933,817	\$765,642,600	\$778,552,888

## CASELOADS—ELIGIBLES

There are two major classifications of persons who are eligible to receive benefits in the California Medical Assistance Program (Medi-Cal)—the cash grant and the medically indigent. Cash grant recipients are those persons who receive public assistance grants and are eligible for the group I scope of benefits, which is the full scope of benefits available under the California Medical Assistance Program. The medically indigent, on the other hand, may receive either group I or group II, a more limited scope of benefits.

California Medical Assistance Program—Continued  
Eligible Caseload Estimates

The budget projects a total estimated caseload of 1,809,200 eligible persons for the 1969-70 fiscal year, which is an increase of 161,800, or 9.8 percent over the number estimated for the current fiscal year. As can be seen in Table 6, the largest percentage increase in caseload is anticipated in the group II category which is projected to increase by 20.6 percent. The group I category is the larger of the two groups and is anticipated to increase by 129,800 persons, or 8.7 percent.

Table 6  
Actual and Projected Medi-Cal Caseloads  
Fiscal Years 1967-68—1969-70

Group and linkage factor	Average	Number	Individuals	Number	Percentage
	monthly	of certified		increase	increase
	1967-68	1968-69	1969-70	1969-70	1969-70
	actual	estimated	estimated	over	over
				1968-69	1968-69
Medical assistance—					
Group I -----	1,366,075	1,496,500	1,626,300	129,800	8.7
Aged -----	323,726	334,200	345,300	11,700	3.3
Blind -----	13,085	13,200	13,400	200	1.5
Disabled -----	125,671	144,400	160,400	16,000	11.1
Families -----	903,593	1,004,700	1,107,200	102,500	10.2
Medical assistance—					
Group II -----	109,587	145,600	175,900	30,000	20.6
Aged -----	24,229	29,400	34,800	5,400	18.4
Blind -----	287	400	500	100	25.0
Disabled -----	7,455	10,700	12,700	2,000	18.7
Families -----	77,616	105,100	127,900	22,800	21.7
Mentally retarded patients age 18-64	-	5,300	7,000	1,700	32.1
Total Medi-Cal Coverage	1,475,662	1,647,400	1,809,200	161,800	9.8

Medically Indigent—Group I

The medically indigent recipients who are eligible for group I benefits include those persons who are eligible for cash-grant payments but choose to receive only medical assistance. Included within this group are: (1) children 16 to 21 in AFDC families to whom cash aid is not currently given because they are not attending school or participating in a training program; (2) foster children maintained or supported in part or in whole by public funds; and (3) long-term institutional patients with net incomes below their maintenance needs but who receive some income so that they are able to provide a share of the cost.

Medically Indigent—Group II

The group II medically indigent are those persons who have categorical linkage to one of the public assistance programs. Categorical linkage means that a person must be eligible for one of the state's public assistance aid categories, either eligible to the extent of receiving a public assistance grant or eligible with an income which is above the maintenance base but not sufficient to meet the cost of medical care.

Group II eligibles may be required to pay a portion of their medical care cost depending upon their income, other resources and the cost of medical care. There is no dollar limitation for eligibility. If a person is

California Medical Assistance Program—Continued

eligible for one of the public assistance aid categories the amount that person is liable for payment of medical costs varies depending upon the person's income or resources. When those costs are paid he is then eligible for receipt of benefits as a group II recipient. The scope of benefits for group II eligibles includes inpatient hospital care and ancillary services and the following outpatient services which are limited to the illness for which hospitalization was ordered: physician services, laboratory services, X-ray and hospital outpatient care.

County Hospital Cost

All California counties have made provision for hospital services for those persons not able to pay the cost of care. Counties have either built their own facilities or have contracted with community hospitals for the provision of county hospital care, as in Marin and Siskiyou Counties. In some instances county facilities have been the only hospitals in the community for indigents as well as for persons with the ability to pay. Prior to 1965 the county property taxpayers provided almost all the funds supporting the county hospitals. With the adoption of Titles XVIII (Medicare) and XIX (Medi-Cal) to the Social Security Act in 1965, the cost of care has drastically shifted from support by the county to the federal and state taxpayers. Table 7 shows the total county hospital support by source of funds for the past, current and budget fiscal years.

Table 7  
County Hospital Source of Funds  
(millions)

	1967-68	% of Total	1968-69	% of Total	1969-70	% of Total
State						
Medi-Cal -----	\$31	--	\$41	--	\$48	--
Option -----	27	--	40	--	45	--
	<u>\$58</u>	16%	<u>\$81</u>	20%	<u>\$93</u>	21%
Federal						
Medi-Cal -----	\$52	--	\$62	--	\$68	--
Medicare -----	43	--	51	--	57	--
	<u>\$95</u>	27%	<u>\$113</u>	28%	<u>\$125</u>	28%
Counties						
Option -----	\$106	--	\$110	--	\$113	--
Non-option counties -----	32	--	35	--	40	--
Medi-Cal -----	21	--	21	--	21	--
	<u>\$159</u>	45%	<u>\$166</u>	40%	<u>\$174</u>	38%
Pay and Insurance						
Collections -----	\$41	12%	\$51	12%	\$59	13%
Total -----	<u>\$353</u>	100%	<u>\$411</u>	100%	<u>\$451</u>	100%

Table 7 shows that the total county hospital cost in 1967-68 was \$353 million and that it is estimated at \$451 million in the 1969-70 fiscal year. In that same period county support will decrease from 45 percent to an estimated 38 percent and state support will increase from 16 percent to an estimated 21 percent.

California Medical Assistance Program—Continued  
 State Support of County Hospitals

Table 7 also shows that for the 1969-70 fiscal year \$48 million in state funds will go to county hospitals as the state's share of the cost for Medi-Cal eligible patients in county hospitals, while \$45 million is estimated as the state's share of the "county option" program cost. These amounts in 1967-68 were \$31 million and \$27 million respectively.

County Option Program

The county option program guarantees state participation in the cost of hospital care for county indigents who are not otherwise covered by state medical assistance programs including the Medi-Cal program. It is a joint county-state program not matched by federal funds. Persons eligible for care under the option program are persons without the ability to pay who are neither eligible for public assistance nor covered by insurance. Thirty counties covering 82 percent of the cost of all county hospital services have chosen the option method of paying for the cost of care for those county indigent patients. The other 28 counties have chosen not to go into the option program at this time because it would cost them more money to do so.

Funding the County Option Program

The method of funding the county option program is provided in Section 14150.1 of the Welfare and Institutions Code. The county's share is based on the uncompensated cost of care to the county for the fiscal year 1964-65, increased by population growth for the current fiscal year less military population. The state's share is determined by computing the total uncompensated cost of care for the current fiscal year and subtracting the county's share from that amount. Table 8 shows the state and counties' option costs for the past, current and budget fiscal years.

Table 8  
 State and Counties Option Costs  
 (millions)

	1967-68	% of Total	1968-69	% of Total	1969-70	% of Total	% 1969-70 Increase over 1967-68
State -----	\$27	20%	\$40	27%	\$45	28%	66.1%
Counties -----	106	80	110	73	113	72	6.6
Total -----	\$133	100%	\$150	100%	\$158	100%	--

New Billing Method

A major change in the uncompensated cost reimbursement concept is being implemented by the state. In the option counties, as the various hospital billing systems become automated, a new method of computing cost for each county medically indigent patient is being effectuated. It is anticipated that this method of recording costs for each county's medically indigent patients will be fully operative by July 1, 1969. Prior to July 1, 1968, the state was not paying on the basis of the individual patient but on the basis of whatever total uncompensated cost was left after payment from all other sources.



**California Medical Assistance Program—Continued**

The county option program has provided an excellent means of property tax relief for the counties. Among other things the state has assumed the sizable salary increases granted county hospital employees during the past three years. There is no real incentive for the counties to deny salary increase demands for those classifications which are strictly hospital classifications because as a practical matter, under the weak controls contained in state law, there is no local cost. We believe this part of the law should be reexamined to strengthen cost control.

**Prepaid Health Care—Program Goal**

Section 14000 of the Welfare and Institutions Code states that the purpose of the California Medical Assistance Program is to afford basic health care and related remedial or preventive services to recipients of public assistance and to the medically indigent. It further states that such care shall, to the extent feasible, be provided through a system of prepaid health care or contracts with carriers.

AB 1140, passed during the 1967 session, amended Section 14000 of the Welfare and Institutions Code to give the Department of Health Care Services the authority to establish pilot projects to provide health care services in the most efficient manner possible. Currently the department has two pilot projects testing the theory and actual implementation of prepayment. The first of the two projects is the San Joaquin plan which has been in operation for the past 12 months. The second pilot project will involve the Foundation for Medical Care of Sonoma County and will include the counties of Sonoma, Lake and Mendocino.

There have been several other plans proposed to the Department of Health Care Services including a project by the Physicians' and Surgeons' Association for Los Angeles and Orange Counties, a proposal for statewide coverage of vision-care services by the California Vision Services, and a statewide prepayment of physician services by the California Blue Shield organization for all persons eligible for Group I benefits.

**San Joaquin Foundation Pilot Project**

The San Joaquin Foundation for Medical Care covers the counties of Amador, Calaveras, San Joaquin and Tuolumne and has a membership of approximately 340 physicians. The first step in the implementation of this prepayment project was an actuarial determination of the proposed dues or premiums to be paid by the state. The dues were eventually based on data provided by the fiscal intermediaries and from an actuarial study by a firm of private actuaries.

The decision was made early in the planning that only cash grant recipients would be considered within the risk group, and because of problems in determining Medicare expenditures for the OAS group of patients, these also were eliminated. This left within the Aid to the Blind (AB), Aid to Totally Disabled (ATD), and Aid to Families with Dependent Children (AFDC) categories some 21,800 eligible recipients out of a total medical care caseload of approximately 33,000. Dues have been established as follows:

AFDC -----	\$66.25/person/month
AB -----	12.25/person/month
ATD -----	14.50/person/month

## California Medical Assistance Program—Continued

As of January, 1969, the Department of Health Care Services has made no final evaluation of the San Joaquin Project. However, it appears that better utilization control is possible through a prepayment plan such as this. The foundation has established both a patient profile of services received and a physician profile of services provided. The profiles and subsequent ability of a local foundation to review the services rendered by various providers and the utilization by various recipients provides a basic control device. For example, a druggist providing small quantities of a drug in a 30-unit lot which would normally be issued in 100 unit lots, was discovered to be receiving three professional fees where he should have received only one.

In March of 1968 the prepayment committee of the Health Review and Program Council approved the following criteria for prepayment plans.

- “(1) The benefits must be coordinated with those provided under federal or state law, or under other contractual or legal entitlements.
- “(2) Benefits must be readily available or accessible to the covered beneficiary.
- “(3) Benefits within the plan must be equally available to all eligibles without discrimination.
- “(4) Proposals to provide benefits based on a class of recipient, a class of benefit, geographical area or other reasonable classification, must be of a sufficient volume to provide meaningful analysis of economy, efficiency and method.
- “(5) Proposals must incorporate adequate recording procedure, accounting and fiscal detail to permit comparative analysis and feasibility appraisal.
- “(6) Proposals should evidence potential economic advantage to the state; premiums, fees or cost must not exceed projected cost based on experience by the state in its direct vendor relationship.
- “(7) Proposals which limit availability of services to a defined geographical area must take into consideration payment for necessary services furnished outside this area.”

## Administration

As is shown in Table 10, the total cost of administering the provision and payment of health care benefits under the Medi-Cal program is estimated at \$39,527,060 for the 1969-70 fiscal year, which is an increase of \$2,955,851 or 7.9 percent, over the current fiscal year estimated expenditure of \$36,626,015. The administrative costs come out of the Health Care Deposit Fund and are paid approximately 50 percent by the General Fund and 50 percent by the federal government.

## 1968-69 Administrative Cost Estimates

The total administrative costs are a further indication of the difficulty of estimating costs in all phases of the Medical Assistance Program. These costs are in the following three areas: (1) State support through

## California Medical Assistance Program—Continued

the Department of Health Care Services, (2) eligibility determination through the county welfare departments, and (3) claim processing and payment by the fiscal intermediaries. The 1969-70 budget shows the estimated current year (1968-69 fiscal year) administrative costs to be \$36,626,015, which is some 27.8 percent more than the \$28,657,807, shown in the Governor's 1968-69 fiscal year budget. Table 9 shows the current estimate of administrative costs by category as compared to amounts originally budgeted.

Table 9  
Medi-Cal Administrative Costs Originally Budgeted and Currently  
Estimated for 1968-69 Fiscal Year

<i>Administrative category</i>	<i>Proposed in 1968-69 Governor's Budget</i>	<i>Estimated in 1969-70 Governor's Budget</i>	<i>Current estimate over budgeted amount</i>	<i>Percent increase</i>
State support -----	\$7,113,557	\$7,964,215	\$850,658	16.0
Fiscal intermediary ---	12,784,000	14,650,900	1,866,900	14.6
County operations --	9,010,250	14,010,900	5,000,650	55.5
Total -----	\$28,907,807	\$36,626,015	\$7,718,208	27.8

Because the state support is a closed-end budget act appropriation we have been able to identify the factors that go into the increase in the state support category. The cost of certification of the mentally retarded is estimated to be \$993,066 and salary increases granted by the State Personnel Board amount to \$367,099. Savings in the amount of \$509,507 bring the net increase to \$850,658 over the budget act appropriation.

Funds for the fiscal intermediary and county support result from continuing appropriations with a result that we have not been able to identify the factors causing such a considerable increase in those categories. It should be noted that the current cost of care estimate is \$778.5 million, as compared to \$889.9 million, which was originally budgeted. Thus, the estimated cost of care is down by 12.5 percent and the estimated cost of administration is up by 27.8 percent. The ability to identify the various factors comprising the state costs gives further credence to the desirability of closed-end appropriations for welfare programs.

## 1969-70 Administrative Costs

Table 10 compares the cost of administration for the 1969-70 fiscal year with the amount estimated to be expended during the current fiscal year.

Table 10  
Medi-Cal Administrative Costs Budgeted 1969-70 and Estimated 1968-69

<i>Administrative category</i>	<i>1968-69 estimated expenditure</i>	<i>1969-70 budgeted amount</i>	<i>Percent increase or decrease over current fiscal year</i>
State support -----	\$7,964,215	\$10,441,666	+31.1
Fiscal intermediary -----	14,650,900	15,972,100	+9.0
County operations -----	14,010,900	13,168,100	-6.0
Total -----	\$36,626,015	\$39,527,060	+7.9%

California Medical Assistance Program—Continued

The primary reason for the increase in state support and decrease in county operation is the proposed change to state administration of the Medi-Cal consultant function which heretofore has been included in county operation costs.

State Support

The 1969-70 budget proposes two appropriations from the Health Care Deposit Fund for support of the Department of Health Care Services in the combined amount of \$10,441,666. The two items are as follows:

Item 140, in augmentation of support for the Department of Health Care Services -----	\$54,806
Item 141, for support of the Department of Health Care Services ----	10,386,860
	\$10,441,666
Total proposed support, Health Care Deposit Fund -----	\$10,441,666

The support proposed for the 1969-70 fiscal year is \$2,477,451, or 31.1 percent more than is estimated to be expended during the current fiscal year.

Included within the proposed \$10,441,666 is \$3,150,002 for contractual services provided by the following departments for the Medi-Cal program.

Department of Social Welfare -----	\$1,695,607
Department of Mental Hygiene -----	345,000
Department of Public Health -----	1,109,395
	\$3,150,002
Total -----	\$3,150,002

The Department of Health Care Services has made major staffing changes during the current fiscal year and proposes additional major changes in the budget for the coming fiscal year. A revision of the staffing pattern of the new Field Services Bureau is the major reason for the change.

At the start of the 1968-69 fiscal year the department had 320.7 authorized positions including 111 of which were in the Field Services Bureau.

During the current fiscal year the department has abolished 71 positions, established 68 and has 14 which are scheduled to terminate at the end of the fiscal year. The budget shows the department starting the 1969-70 fiscal year with 306.7 authorized positions. Carrying forward the changes in the current year the budget shows a reduction of 31 positions and the proposed addition of 255 positions for a total of 530.7 for the 1969-70 fiscal year.

Medi-Cal Management and Information System Study

The budget proposes \$750,000 for fiscal year 1969-70 for the second phase of a total management system study of the California Medical Assistance Program. The 1968-69 budget authorized \$250,000 for the first phase of this study. A total of \$198,000 is estimated to be expended for the study.

**California Medical Assistance Program—Continued**

The basic objective of the two-year \$1 million management study is to develop a functional total management system which will aid the Department of Health Care Services in the efficient and effective management of the California Medical Assistance Program. The first phase of this system study is to review and analyze existing operations and to develop recommendations for change and to propose a system for implementing such changes. The second phase is to be the actual implementation of the recommendations.

**Phase I**

In the initial review process for the total management systems study certain basic factors relating to the Medi-Cal program are being considered which include the total program structure, communications within state government, provider relations, payment system, and fiscal operations. This phase will review the current ongoing operating system and evaluate the needs of the various groups involved in the decision-making process.

**Phase II**

Phase II is the actual implementation which will include programming, converting data files, establishment of original files, and installation of a fully operational information system. This phase is the actual conversion from the existing ongoing Medi-Cal "system" to the proposed and accepted recommendations developed from phase I of the total management system study.

**Field Offices Bureau, Medi-Cal Consultants**

*We recommend that the Medi-Cal consultant function be retained at the county level and that \$2,923,000 be reduced from the proposed appropriation for support of the Department of Health Care Services.*

In the 1968-69 Governor's Budget a new Field Services Bureau was proposed for the Program and Planning Division of the Department of Health Care Services. District and regional offices were to be established which would directly administer the Medi-Cal consultant function in the California Medical Assistance Program. This function has been administered at the county level with local consultants, either in the county welfare department or the local health department. The consultants provide review and approval of all benefits for which prior authorizations are required including some physician services, nursing home placements, chiropractic, podiatry, optometric and some dental services. Prior authorization is requested by either the provider of service or the recipient and referred by the county welfare department to the appropriate consultant for review.

Justification for the proposed change to state consultants was on the basis that major inadequacies exist in the present county consultant function. These inadequacies are: lack of uniformity between counties, inadequate consultants service in some area (part-time consultants), sensitivity to local pressures, consultants responsible to nonmedical supervisors, and inability of the state to give firm direction.

The 1968-69 budget proposed a "phasing-in" of the program with 111 authorized positions to be in nine offices in the 1968-69 fiscal year

**California Medical Assistance Program—Continued**

and 59 positions to be located in three offices established during the 1969-70 fiscal year. The estimated full-year cost for the proposed bureau of 170 positions was \$3,155,548. The estimated cost of the county administration of this function in fiscal year 1968-69 was \$1,875,898. This was based on the assumption presented by the department that 19 percent of the county's administrative claim to the Health Care Deposit Fund is specifically related to the Medi-Cal consultant function. Of the \$3.1 million full-year cost for the bureau, approximately 59 percent would be met by the federal government. The federal government pays 75 percent of the cost of medical administrative personnel and 50 percent of the cost of all other administrative costs. The federal share has averaged 59 percent.

**Current Proposals for Increased State Administrative Costs**

In the 1969-70 budget proposal the number of positions requested for the Field Offices Bureau has been increased to 303 positions from the original 170 authorized positions. The 133 proposed positions are clerical. The increase is based on a nine-county study performed by the Department of Health Care Services which determined that the original proposal of 170 positions did not provide sufficient clerical support to meet the paper-flow needs generated by direct state administration of the Medi-Cal consultant function.

A new schedule for the establishment of positions and various field offices is also proposed. A total of 93 positions are to be filled in fiscal year 1968-69 and 210 positions are proposed to be established in fiscal year 1969-70 for a total bureau staffing of 303 positions. The projected cost for the function on a partial-year basis is now estimated to be \$2,923,000 for fiscal year 1969-70. The estimated full-year cost of the Field Offices Bureau, which will be in full force in fiscal year 1970-71, is estimated to be \$4,450,000.

**Reduction of County Administrative Costs to Offset State Increases**

The budget proposes a reduction in the county administrative funds to offset the cost of establishing state administration of the Medi-Cal consultant function. For the 1969-70 fiscal year an amount of \$2,923,000 was cut from the estimated county claim.

The Department of Health Care Services has no data indicating what the exact cost is for county administration of the consultant function. The only information available to us is that which was included in the justification material presented last year for the original establishment of state administration. That material indicated that 19 percent of the total amount claimed by the county as administrative expenses was for the consultant function. Using that figure we have estimated that the full-year cost to the counties for the consultant function is \$3,057,091. The Department of Health Care Services has estimated that the full-year cost for state administration is \$4,450,000, thus the increased cost of converting the Medi-Cal consultant function from local to state administration is approximately \$1,388,000, or an additional General Fund cost of approximately \$750,000.

California Medical Assistance Program—Continued  
Projected Savings

The Governor's 1969-70 Budget states that \$3.2 million savings will be realized in cost of care by the conversion to state administration of the consultant function. The budget states that this will be accomplished primarily by applying uniform standards of approval to requests for services with an example being authorization by the Medi-Cal consultants for nursing home admissions and readmissions. There are no specific data provided as a basis for the anticipated savings.

Although we have used a figure of 19 percent as the percentage of county administrative costs for the consultant function, the Department of Health Care Services has stated that it does not know how many positions or how many man-year equivalents various counties have employed in this function.

We do not feel there is adequate justification to warrant the establishment of 12 district offices and 303 positions for the Medi-Cal consultant function. The primary justifications submitted by the department are: (1) the lack of uniformity between counties and (2) that direct state supervision will provide more consistent application of controls on prior authorization requests which will result in a program cost saving. The program budget, page 371, goes on to state: "It is planned that by the end of the 1969-70 fiscal year all of the Medi-Cal consultant functions will be directly under the department, or provided through contractual arrangements where a county has demonstrated to the satisfaction of the state that it can provide acceptable consultant services."

The state has never set specific minimum requirements for the consultants employed by the counties although the state and federal governments pay the total cost of administrative expenses. While the state plans to contract with certain counties that demonstrate they can provide acceptable consultant services, we see no insurmountable reason why all counties could not meet standard requirements if they were issued by the state.

During the fall of 1968 representatives from our office visited the 10 largest counties in California and discussed the proposed conversion of the Medi-Cal consultant function. We have concluded that with state administration of a portion of the total administrative function there could be a reduction in availability of consultants to assist the county welfare staffs, who in turn are responsible for determining eligibility and case review of Medi-Cal recipients. Consultants now performing this function at the county level are familiar with the vendors in their areas, whereas the state consultants would not have that familiarity. With a bifurcated administrative procedure as envisioned in the budget proposal we believe that the administrative problems would become greater, rather than diminish. We therefore can see no benefit deriving from an increased cost of \$1,388,000.

Section 14000 of the Welfare and Institutions Code states that it is intended that whenever possible and feasible medical care provided through the Medi-Cal program shall be provided through a system of prepaid health care or contracts with carriers. It is a stated legislative goal to work toward this end, and until such time as it is found that

**California Medical Assistance Program—Continued**

this goal cannot be ultimately achieved, we do not recommend the expansion of responsibility of the state administrative agency charged with administering the program as it is presently constituted. Such a move may in fact deter progressing toward prepaid medical care.

**Executive Division**

*We recommend approval of the proposed position of executive secretary for the Health Review and Program Council and one senior stenographer.*

An executive secretary position is proposed to be the staff for the 11-member Health Review and Program Council established in 1965 by Section 14125 of the Welfare and Institutions Code. The council has a responsible role and needs independent staff assistance. The proposed stenographer will provide legal secretarial assistance for the existing administrative adviser position.

**Administration Division—Special Projects Unit**

*We recommend approval of a proposed special projects unit composed of three associate management analysts and one typist-clerk II.*

The department is requesting three associate management analyst positions and one clerical II position to establish a pilot and prepayment studies unit. The basic function of this unit will be to study various prepaid health insurance plans proposed by various provider groups. As has been noted previously, the Department of Health Care Services has received a wide variety of proposals including a family health program in southern California, a proposal for the provision of visual care services for a certain portion of the state, a pilot program in San Diego and Fresno Counties for payment of drug claims and many others. The San Joaquin foundation project has been in operation for approximately one year, and there is a proposal by the Foundation for Medical Care of Sonoma County to provide a prepayment program for all Medi-Cal recipients in Sonoma, Mendocino and Lake Counties who are eligible for Group I scope of benefits.

The San Joaquin foundation project has already required one man-year of staff time and the proposal for medical care in Sonoma County has required approximately one-half man-year of time for evaluation and has not yet been implemented.

**Office and Business Services Bureau**

*We recommend approval of the proposed stenographer II position.* This position is proposed on the basis of additional workload generated by the expansion of the department.

**Data Processing Bureau**

*We recommend the deletion of three associate data processing systems analyst positions, two of which were established administratively during the current fiscal year, two assistant data processing systems analyst positions and one clerk II position for a savings of \$58,730.*



**California Medical Assistance Program—Continued**

The department has 30 data processing projects planned and budgeted during fiscal years 1968-69 and 1969-70. These data processing and clerical positions are proposed for the 30 projects and are in addition to a currently authorized senior data processing systems analyst.

The proposed projects should not be considered as separate projects, but rather as part of the total system study noted below. The majority of these projects are operational programs conducted primarily by the Departments of Public Health, Social Welfare and the fiscal intermediaries (Blue Cross North, Blue Cross South and Blue Shield). Additional systems work should not be needed on these projects.

**Medi-Cal Management Study**

The Department of Health Care Services has under study at the present time the first phase of a total management systems study for Medi-Cal. Phase I of this project will be completed March 1, 1969, at a cost of \$198,000. Phase II, the implementation phase, will take place in the 1969-70 fiscal year, at a proposed cost of \$750,000.

We have recommended approval of the total system study and supported such a concept in a report on Medi-Cal information system needs dated February 15, 1968.

When the final report from phase I of the total management system study has been received and evaluated and the implementation phase (phase II) is started it may be necessary for the department to expand its data processing staff to provide a balance of state personnel with outside private contractor personnel for the implementation of the system. However, it is not known at this time what the state personnel needs are.

**Personnel Bureau**

*We recommend the deletion of one personnel assistant I position transferred from the State Department of Social Welfare and one proposed clerk-typist II position, for a total reduction of \$11,000. We recommend approval of a proposed personnel officer position, an assistant personnel analyst, and a stenographer II.*

An assistant personnel analyst position and a personnel assistant I position were transferred from the State Department of Social Welfare during the current fiscal year and three positions, a personnel officer, a stenographer II and a clerk-typist II, are proposed as new positions.

Based on our previous recommendation for the elimination of the Field Offices Bureau with its 303 positions, we are recommending the elimination of two of the five proposed personnel positions. If the Field Services Bureau is approved, all five positions will be required on a workload basis.

**Special Audits Bureau**

*We recommend approval of one governmental auditor III position and three governmental auditor II positions.*

One governmental auditor II is proposed on the basis of a workload increase in basic Medi-Cal audits and county option audits. Two govern-

**California Medical Assistance Program—Continued**

mental auditors II are proposed on the basis of a workload increase in Medicare audits. The governmental auditor III position is proposed on the basis of needed supervision for the Medicare audit. Full federal reimbursement is made for the Medicare audit positions.

**Budgets and Accounts Bureau**

*We recommend approval of a proposed assistant budget analyst position.*

This position will assist in support and subvention budget preparation and is justified on a workload basis.

**Division of Intermediary Contract Administration—Investigations and Intermediary Audit Bureau**

*We recommend approval of 14 proposed investigator, auditor and clerical positions.*

Four investigators positions are from the investigation unit of Los Angeles County and have been transferred to the Department of Health Care Services. Ten other positions are requested new positions to investigate reports of abuse and fraudulent activities in the California Medical Assistance Program. Nine of the 14 positions were administratively established during the current fiscal year. Three positions will terminate June 30, 1970.

**Intermediary Operations Bureau**

*We recommend approval of three general auditor III positions, four general auditor II positions and one stenographer II positions.*

Seven limited-term auditor positions are proposed for the budget year. These positions are already established on a limited-term basis due to the month-to-month contractual arrangement with the three fiscal intermediaries. The function performed is to coordinate intermediaries' activities and perform audits.

**Division of Program Evaluation—Program Cost Estimates Bureau**

*We recommend approval of one accounting technician II position.*

This position will assist in statistical analysis and informational requests and is proposed on a workload basis.

*We recommend approval of one associate economist, two assistant economic analysts and two account-clerk II positions.*

The budget proposes three economist and two clerical positions to analyze and evaluate the various fee schedules within the scope of service in the California Medical Assistance Program (Medi-Cal). The positions will check variations in fee schedules and propose changes if appropriate. They will evaluate hospital cost information and make recommendations for controlling costs of both county and community hospitals.

The function performed by the proposed three economists and two clerical assistants will supplement the activities of the Standards and Rates Unit in the Human Relations Agency which we have recommended for approval. There are several basic data elements missing for

**California Medical Assistance Program—Continued**

the decision-making process in regards to cost projections and per-unit costs in the total program. It is anticipated that these positions will aid the decision-making process in relation to the total California Medical Assistance Program and the state contribution to it.

**Program and Planning Division—Medical Services Bureau**

*We recommend approval of one health program advisor III position for the Medical Services Bureau.*

One health program advisor III is proposed to provide liaison with the State Department of Public Health and the department's Comprehensive Health Planning Unit. The cost of the position is fully reimbursed by federal funds.

**Department of Mental Hygiene  
COMMUNITY MENTAL HEALTH SERVICES**

**Item 339 from the General Fund**

Requested 1969-70	\$147,465,647
Estimated 1968-69	30,625,000
Actual 1967-68	24,666,129
Requested increase \$116,840,647 (381.5 percent)	
Total recommended reduction	None

**ANALYSIS AND RECOMMENDATIONS**

For analysis of this item, see page 591, Item 158.

**Department of Public Health  
CRIPPLED CHILDREN SERVICES**

**Item 340 from the General Fund**

Requested 1969-70	\$15,322,550
Estimated 1968-69	11,653,609
Actual 1967-68	9,598,205
Requested increase \$3,668,941 (31.5 percent)	
Total recommended reduction	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*We recommend that the Department of Public Health strengthen its regulations so as to take better advantage of family repayments.*

**GENERAL PROGRAM STATEMENT**

The Crippled Children Services Program element (CCS) of the Preventive Medical Program provides for diagnosis, treatment and therapy to physically handicapped children. The program is administered under the provisions of Sections 249 to 271 of the Health and Safety Code,

**Crippled Children Services—Continued**

which provide that whenever a parent or guardian of a child is unable to finance necessary care a designated agency of the county may request the state to provide such services. The county pays a share of the program costs and must appropriate at least one-tenth mill on each dollar of assessed valuation in order to participate.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes a total program expenditure of \$22,456,082 including county funds and family repayments. This represents an increase of \$3,332,913 or 14.8 percent over the amount estimated to be expended in the current year. The General Fund increase, however, is \$3,668,941 or 31.5 percent. This increase is accounted for by the passage of AB 2024 (Chapter 1316) at the 1968 session, and the inclusion of therapy services in this item. Under the provisions of this statute, which takes effect July 1, 1969, the state-county sharing ratio for the financing of the program changes from 2 to 1 to 3 to 1. A greater share of the administration costs are to be borne by the state under the provisions of this bill.

A former separate subvention item known as "Assistance to Local Agencies for the Treatment of Physically Handicapped Children (therapy services)" has been transferred to Crippled Children Services and is supported by this item in the budget year.

The net increase to the General Fund for services now under this single item is \$874,941 and is derived as follows:

	1968-69	1969-70	<i>Increase or decrease</i>
Basic program excluding therapy services--	\$11,653,609	\$12,887,419	+\$1,223,810
Therapy services -----	2,794,000	2,435,131	-358,869
Net increase -----			\$874,941

Chapter 1316 also requires that the expenditure of state funds not exceed the actual appropriated amount for the Crippled Children Service program.

**Family Repayments**

*We recommend that the Department of Public Health strengthen its regulations to maximize family repayments.*

In the 1968-69 Governor's Budget the Department of Public Health estimated that \$1,222,200 in family repayments would be collected in the current year to help finance the program. The 1969-70 budget reestimate of family repayments for the current year is \$732,669 or a decrease of \$489,531. Under regulations adopted by the department regarding the Crippled Childrens' program, it is estimated that only about 5 percent of the families receiving services under the program are required to make repayments. We are informed that this is because of the rather liberal regulations regarding repayment adopted by the department. These regulations should be strengthened to maximize family repayments.

**Crippled Children Services—Continued  
Deficiency Appropriation Unnecessary**

It should also be noted that Chapter 8, Statutes of 1968, approved a deficiency appropriation for the Crippled Childrens' Services program in the amount of \$750,000. This appropriation was said to be necessary in order to cover the costs of the program for the 1967-68 fiscal year. The budget now shows that \$948,758 was unexpended by the program in 1967-68, indicating that the deficiency appropriation was not only unnecessary but there was a surplus of \$198,758. Better controls over expenditures and estimated reimbursements must be adopted by both the department and the counties to prevent such mis-allocation of funds in the future.

**Department of Public Health  
TUBERCULOSIS SANATORIA**

**Item 341 from the General Fund**

Requested 1969-70 -----	\$2,536,780
Estimated 1968-69 -----	2,499,997
Actual 1967-68 -----	2,203,436
Requested increase \$36,783 (1.5 percent)	
Total recommended reduction -----	\$52,409

**SUMMARY OF RECOMMENDED REDUCTIONS**

	<i>Amount</i>	<i>Analysis page</i>
Reduce reimbursements to the Department of Mental Hygiene for the care of recalcitrant tuberculosis patients -----	\$52,409	933

**GENERAL PROGRAM STATEMENT**

This program is authorized under the provisions of Section 3298 of the Health and Safety Code which requires the state to provide grants-in-aid to local agencies for the care and treatment of persons suffering from tuberculosis. The specified amount of such aid is \$2.60 per patient-day for the first 36,500 patient-days of care, \$2.30 for the second 36,500 days of care, and \$1.75 for all additional days plus an additional supplemental amount specified in each budget act.

The budget proposes an expenditure of \$2,536,780 to support this program during 1969-70. This is an increase of \$36,783 over the amount estimated to be expended in the current year, despite the fact that an estimated 32,482 fewer patient-days of care will be reimbursable in the budget year. The increase is accounted for because the supplemental amount provided for in the budget act has been increased from \$3.58 per patient-day in the current year to \$5.16 in the budget year. The Department of Public Health has approved this supplemental amount increase based on a comparison of the previous year's actual costs to the local agency with the first six months' current year costs.

**Tuberculosis Sanatoria—Continued  
ANALYSIS AND RECOMMENDATIONS**

*We recommend a reduction of \$52,409 in the appropriation for this item on the basis that the department has overbudgeted funds for recalcitrant tuberculars.*

Section 3295 of the Health and Safety Code provides for the care of tuberculosis patients who violate the quarantine or isolation orders of a county health official. An agreement is in effect with the Department of Mental Hygiene to care for such persons at Napa and Patton State Hospitals. The budget request includes \$77,409 to reimburse the Department of Mental Hygiene for this care.

The Department of Public Health estimates that only five such recalcitrant tuberculosis patients will require institutionalization at the state hospitals in the budget year. The department also estimates the average length of hospitalization for such patients to be approximately 150 days. Based on a cost of \$33.10 per patient-day charged by the Department of Mental Hygiene to the Department of Public Health, the cost for treating five patients for 150 days totals \$24,825.

The department has historically overbudgeted the amount necessary for caring for recalcitrant tuberculosis patients. We are therefore recommending a reduction of \$52,409 for this item, leaving the department \$25,000 for the treatment of recalcitrant tuberculosis patients in state hospitals, based on its own estimates of need.

**Department of Public Health**

**ASSISTANCE TO COUNTIES WITHOUT HEALTH DEPARTMENTS**

**Item 342 from the General Fund**

Requested 1969-70	\$659,785
Estimated 1968-69	645,418
Actual 1967-68	557,384
Requested increase \$14,367 (2.2 percent)	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

This program furnishes basic, minimal public health services, under contractual arrangements, to counties with populations under 40,000. Presently 15 counties are receiving such services. The services are provided by the Bureau of Contract County services under the authority of Section 1157 of the Health and Safety Code. This section requires that each participating county contribute a minimum of 55 cents per capita to help support the program.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*

The budget proposes total support for the contract county program of \$1,149,749. This amount includes an appropriation of \$659,785 from the General Fund, \$389,964 as the counties' share, and \$100,000 in federal funds.

Assistance to Counties Without Health Departments—Continued

The counties currently receiving services under this program are Alpine, Amador, Calaveras, Glenn, Lake, Lassen, Mariposa, Modoc, Mono, Nevada, Sierra, Siskiyou, Tehama, Trinity and Tuolumne. Their combined estimated resident population as of July 1, 1968, was 217,700 or an average of 14,513 per county.

During the legislative budget hearings of 1968, the department was requested to submit a report to the Legislature concerning the implications of comprehensive health planning in the contract counties. On January 9, 1969, a report titled "Alternative Methods of Service and Financing in Conjunction with Research under the Comprehensive Health Planning Program" was submitted. This report concludes that the comprehensive health planning effort in areas served by the contract county program is still in the embryonic stage, and that specific recommendations at this time would be premature.

We continue, however, to support efforts to provide a workable alternative to the present financing of this program so as to reduce the burden on the General Fund.

**ASSISTANCE TO LOCAL HEALTH DEPARTMENTS**

**Item 343 from the General Fund**

Requested 1969-70	\$4,743,172
Estimated 1968-69	4,701,076
Actual 1967-68	4,605,777
Requested increase \$42,096 (0.9 percent)	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

This program allocates state and federal funds to 43 qualified local health departments providing public health services. The state funds are allocated in accordance with Section 1141 of the Health and Safety Code. Federal funds are allocated by the state department to local departments after a review of the local plan to determine conformance with the provisions of the state plan.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes \$7,819,356 to support this program. This includes \$4,743,142 from the General Fund and \$3,076,184 in federal funds. The General Fund support in the budget year is \$42,096 above the amount estimated to be expended in the current year. This includes a basic allowance plus an amount equal to 20.5 cents per capita to be apportioned on the basis of the population residing in the 43 participating counties.

**Department of Public Health**  
**ASSISTANCE TO LOCAL AGENCIES FOR MENTAL**  
**RETARDATION SERVICES**

**Item 344 from the General Fund**

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Requested 1969-70 .....	\$4,896,718
Estimated 1968-69 .....	2,292,570
Actual 1967-68 .....	1,513,000

Requested increase \$2,604,148 (113.6 percent)

Total recommended reduction : Recommendation Pending

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**SUMMARY OF MAJOR ISSUES**

We recommend the Legislature reassess and reevaluate all existing programs for the mentally retarded with the specific goal of creating a genuine program approach with more efficient and coordinated delivery of services. (Analysis page 936).

**ANALYSIS AND RECOMMENDATIONS**

Chapter 1242, Statutes of 1965, authorized the creation of a network of regional diagnostic, counseling and service centers for mentally retarded persons and their families. These regional centers were authorized to provide an alternative to state hospitalization.

Through regional centers, assistance is provided to families with retarded individuals in the form of diagnosis, continuing evaluation, counseling, and assistance in purchasing appropriate health and social services in the community. Regional centers are operated by appropriate local agencies under a contract with the Department of Public Health.

The department proposes to support six such regional centers in the budget year at a General Fund cost of \$4,896,718. This is an increase of \$2,604,148 over the amount estimated to be expended in the current year. This substantial increase is accounted for by several factors.

At the beginning of the current year, two regional centers were in operation in San Francisco, and Los Angeles respectively. The Budget Act of 1968 authorized the establishment of four new regional centers. Funding for their initial establishment was provided by an augmentation of \$400,000 and the transfer of \$309,570 from the Department of Mental Hygiene. The Mental Hygiene funds had been used to support four preadmission centers for the hospitals for the mentally retarded which were located in Sacramento, San Jose, Van Nuys and San Diego. The authority for operating the preadmission centers was also transferred to the Department of Public Health and their functions were to be expanded into a regional diagnostic center operation. Mental Hygiene employees were to continue to operate preadmission centers under an interagency agreement until such time as a contract for regional center services could be signed with a local agency.

To date, only one contract has been signed, and that is in San Diego. A contract for the operation of a regional center in Sacramento is pending approval by the State Personnel Board. The slowness in the signing



## Assistance to Local Agencies for Mental Retardation Services—Continued

of contracts is due primarily to the opposition of the California State Employees' Association to the contractual method used by the Department of Public Health. This opposition is based on the CSEA's interpretation of Article 24, of the State Constitution. Each contract, therefore, must be approved by the State Personnel Board after public hearing.

The department, however, has based its budget request in anticipation of six regional centers in full operation in the budget year. We are in support of the Department of Public Health's regional center program but we are reserving any recommendation on this item pending legislative review of our proposals in the following section "Mental Retardation Services in California."

## MENTAL RETARDATION PROGRAMS IN CALIFORNIA

*We recommend that the Legislature reassess and reevaluate all existing programs for the mentally retarded with the specific goal of creating a genuine program approach for the more efficient and coordinated rendering of these services.*

State government in California has provided some form of care for mentally retarded persons for many years. This involvement dates back at least to 1889 when California built an institution for the retarded.

## What is Mental Retardation?

The American Association on Mental Deficiency states that "mental retardation refers to subaverage general intellectual functioning which originates during the developmental period and is associated with impairment in adaptive behavior." Another definition is supplied by the President's Panel on Mental Retardation: "The mentally retarded are children and adults who, as a result of inadequately developed intelligence, are significantly impaired in their ability to learn and to adapt to the demands of society."

Mental retardation has a multitude of causes and many different manifestations. It is not a specific disease and, as such, may have different meanings with reference to medicine, education and employment.

The State Department of Public Health estimates that approximately 400,000 citizens of California are mentally retarded. Of these, the department further estimates that 200,000 will require professional services at some time during their lives.

An examination of Table 1 will show that the state, in cooperation with federal and local agencies, offers a number of different services designed to provide for the needs of its mentally retarded citizens. This table will also show that substantial amounts of state, federal and local funds are provided to support these services.

Table 1

Estimated Cost and Caseload of State-Supported Services for the Mentally Retarded

	1967-68	1968-69	Caseload July 1, 1968
<i>Department of Mental Hygiene</i>			
In-hospital services—full range of medical and social services in four hospitals for the mentally retarded and mental retardation units in five hospitals for the mentally ill-----	\$58,439,543	\$65,242,046	12,993
Neuropsychiatric institutes—conducts research into the nature, causes and treatment of mental retardation-----	1,354,153	2,400,000	--
Short-Doyle services—wide variety of in and outpatient services in 35 county programs-----	1,131,981	1,700,000	1,325
<i>Department of Public Health</i>			
Bureau of Mental Retardation and Regional Center Program—administers and provides funds to two regional centers which provide diagnostic, counseling and treatment services on contractual basis in specified areas. (Four additional centers have been authorized by the Legislature and will be in full operation during the 1969-70 fiscal year.)-----	\$1,650,352	\$2,434,868	730
Bureau of Maternal and Child Health—administers various federal special project grants which provide for research and treatment of mental retardation.			
Federal funds-----	633,395	624,835	--
Bureau of Crippled Children services—receives and disburses funds for treatment of crippling conditions in eligible mentally retarded.			
General Fund-----	\$1,128,310	\$1,351,912	
Federal funds-----	404,857	415,855	
Total-----	\$1,533,167	\$1,767,767	--
Bureau of Health Facilities Planning and Construction—allocates state and federal funds to public and private agencies for hospital construction. Allocations for mental retardation facilities.			
General Fund-----	\$1,140,987	\$564,071	
Federal funds-----	1,140,987	993,084	
Total-----	\$2,281,974	\$1,558,071	--

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Item 344

Local Assistance

Table 1—Continued

## Estimated Cost and Caseload of State-Supported Services for the Mentally Retarded

*Department of Social Welfare*

Division of Protective Social Services—provides for purchase of medical and social services for mentally retarded patients on leave from state hospitals.

	1967-68	1968-69	Caseload July 1, 1968
General Fund -----	\$3,041,580	\$3,296,004	
Federal funds -----	2,150,082	2,329,934	
County funds -----	50,441	56,827	

Total -----	\$5,244,103	\$5,682,765	4,369
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Aid to Needy Disabled (ATD)—available to qualified mentally retarded persons over 18 years of age.

General Fund -----	\$9,696,728	\$10,895,200	
Federal funds -----	10,301,839	11,575,100	
County funds -----	1,618,020	1,818,000	

Total -----	\$21,616,587	\$24,288,300	19,460
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*Department of Rehabilitation*

Offers wide variety of vocational rehabilitation services in cooperation with local school districts, under contract with regional centers, in state hospitals and residential centers.

General Fund -----	\$500,000	\$661,908	
Federal funds -----	1,900,000	1,984,373	

Total -----	\$2,400,000	\$2,646,281	2,395
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*Department of Education*

Division of Special Schools and Services—administers school programs for educable and trainable mentally retarded.

	1967-68	1968-69	Average daily attendance
General Fund -----	\$699,622	\$714,147	
Federal funds -----	160,000	160,000	

Total -----	\$859,622	\$874,147	
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School programs for educable mentally retarded.			
State School Fund <sup>1</sup> -----	\$30,909,223	\$32,763,776	58,308
School programs for trainable mentally retarded.			
State School Fund <sup>1</sup> -----	\$7,393,106	\$7,836,692	8,496
Special transportation for trainable mentally retarded.			
State School Fund -----	\$3,022,530	\$3,203,881	8,236
Development centers for handicapped minors—provide day care at 29 centers statewide.			
General Fund -----	\$2,531,500	\$3,056,500	1,020
Grand Total -----	<u>\$140,999,236</u>	<u>\$156,079,013</u>	<u>          </u>
Recapitulation:			
General Fund -----	\$81,314,756	\$92,316,656	
School Fund (General Fund) -----	41,324,859	43,804,349	
Federal funds -----	16,691,160	18,083,181	
County funds -----	1,668,461	1,874,827	117,382 <sup>2</sup>

939<sup>1</sup> Represents direct transfer from the General Fund.  
<sup>2</sup> Duplications are included due to persons on more than one program.

**Assistance to Local Agencies for Mental Retardation Services—Continued  
CURRENT SERVICES PROVIDED BY DEPARTMENTS OF  
STATE GOVERNMENT****Department of Mental Hygiene**

The Department of Mental Hygiene has historically had the major responsibility for the provision of services designed to treat and prevent retardation. Treatment facilities include the four hospitals for the mentally retarded—Fairview, Pacific, Porterville and Sonoma—and mental retardation units in five hospitals for the mentally ill—Agnews, Camarillo, DeWitt, Napa and Patton. Treatment for approximately 13,000 patients is provided at a total expenditure of \$65.2 million in 1968–69. Patients in these hospitals are usually those who require 24-hour treatment and supervision. They vary in age from a few days to 90 years, although recent admissions tend toward the profoundly retarded younger patient with greater physical and emotional handicaps.

The Department of Mental Hygiene is directed by statute to conduct research into the causes, treatment and prevention of mental retardation and to train professionals in these fields. To carry out this responsibility the department cooperates jointly with the University of California in the maintenance of two neuropsychiatric institutes located at San Francisco and Los Angeles. A new mental retardation unit at the Neuropsychiatric Institute at UCLA is scheduled for completion in 1969. Staffing and program development for the unit have already begun and the first outpatients were received in 1968. Hospital inpatients are scheduled to be received when the unit is completed in the spring of 1969. The mental retardation activities of the neuropsychiatric institutes are supported at an annual cost of approximately \$2.4 million.

**Local Services**

In addition to the direct provision of treatment and prevention services for mental retardation, the Division of Local Programs in the Department of Mental Hygiene is responsible for the administration of the Community Mental Health (Short-Doyle) program established in 1957. Under this program the state provides financial assistance to local agencies for the establishment and development of mental health services, including services to the mentally retarded. Of the 41 local agencies receiving assistance under the Short-Doyle program, 35 provide some identifiable service to the mentally retarded. These services vary widely, and range in scope from very limited services to comprehensive inpatient and outpatient treatment. Approximately 1,325 mentally retarded persons received services in Short-Doyle programs in 1968, at a total cost of \$1.7 million as compared to a cost of \$1.1 million in 1967.

**Department of Public Health**

The State Department of Public Health is another agency having major responsibility in the field of prevention and treatment of mental retardation. The Bureau of Mental Retardation has the primary responsibility for the administration of the regional diagnostic, counseling and service center program.

In 1965 legislation was enacted which provided for the establishment of a network of regional diagnostic, counseling and service centers for

**Assistance to Local Agencies for Mental Retardation Services—Continued**

mentally retarded persons and their families. This legislation directed the department to contract with appropriate regional agencies for the establishment of such centers. It was envisioned that such regional centers would be located near population centers and would provide for the purchase of a wide range of services so that mentally retarded individuals and their families would have some alternative to state hospitalization. It was also felt that it was in the best interest of the state and the retarded individual if community-based care could be provided.

**Regional Diagnostic Centers Expanding**

In 1966, two such regional centers were established. Located in San Francisco and Los Angeles, the centers gave first priority for services to those persons on the waiting lists for Sonoma and Fairview State Hospitals. Once the persons on the waiting lists were served, other retarded persons in the San Francisco and Los Angeles areas began to receive services. By July 1968, 780 persons were on the active case-load of the two regional centers.

At the 1968 session, the Legislature authorized the regional center program to expand from two to six centers. Four satellite preadmission screening centers previously operated by the Department of Mental Hygiene were transferred to the jurisdiction of the Department of Public Health. These preadmission centers are located in Sacramento, San Jose, Van Nuys and San Diego and perform preadmission screening and diagnosis for mentally retarded individuals seeking admission to a state hospital. These centers provided a nucleus for the creation of regional diagnostic, counseling and service centers and the Department of Public Health was authorized to develop them into regional centers by contracting with appropriate local agencies. To date, a contract has been signed in the San Diego area and approval of another in Sacramento is pending. The centers will continue to perform preadmission functions for the state hospitals under an interagency agreement with the Department of Mental Hygiene.

**Other Department of Public Health Responsibilities**

The Bureau of Maternal and Child Health is the recipient of several federal special project grants which provide funds for research and treatment of mental retardation. Several traveling diagnostic teams are supported in this manner.

The Crippled Children Services program, administered by the Bureau of Crippled Children Services, estimates that \$1.8 million was spent in 1968 to provide corrective surgery to physically handicapped mentally retarded persons. Federal, state and county funds are used to maintain this program.

The department also inspects, certifies, and issues licenses to establishments providing day care for mentally retarded individuals.

**Assistance to Local Agencies for Mental Retardation Services—Continued  
Department of Social Welfare**

Over 19,000 mentally retarded persons receive an estimated \$24.3 million in public assistance payments and related social services through the Aid to the Needy Disabled program administered by the State Department of Social Welfare.

In addition, the State Department of Social Welfare provides specific services to the mentally retarded through its Division of Protective Social Services. This division is responsible for cooperating with the Department of Mental Hygiene and local agencies to prevent the unnecessary commitment of both mentally ill and mentally retarded persons and to facilitate the return to the community of those persons already committed and in state hospitals. The program is directed primarily, insofar as retardation is concerned, to those retarded individuals on leave from the state hospital, and secondarily to those retarded persons for whom community-based care is a practicable alternative to hospitalization.

Emphasizing the retarded person's social adjustment to the community after a period of relative isolation in the hospital, this program attempts to insure continuity of care throughout the period when services are needed. A professional staff of trained social workers attempts to place the retarded individual into the type of care they feel will be most beneficial to the individual. Services provided include home leave, both in and out of the individual's own home, family care, placement in private institutions, and placement in employment.

This program was formerly carried out by the Bureau of Social Work in the Department of Mental Hygiene. The functions were transferred by legislation to the State Department of Social Welfare in 1966 in order to obtain more federal funds. The department advises that county welfare departments are being encouraged to assume responsibility for a major portion of this program, but little success has been achieved to date.

**Department of Rehabilitation**

The Department of Rehabilitation, through its Division of Vocational Rehabilitation, carries out programs of cooperative rehabilitation services for mentally retarded persons. These programs are operated in cooperation with the Departments of Public Health, Mental Hygiene, and Social Welfare, and with local school districts. The major goal of these programs is to prepare the mentally retarded to move out of the institutions and make a successful adjustment in the community.

Under contract with the State Department of Social Welfare, the Department of Rehabilitation arranges workshop services for approximately 200 severely retarded individuals. Although most of these individuals do not have a vocational potential because of the severity of their disability, some have moved on from this program to be accepted for more advanced vocational rehabilitation services. Approximately \$120,000 annually is spent for these services.

Since 1966, under contract with the Department of Mental Hygiene, the Department of Rehabilitation has been operating a residential rehabilitation program for the retarded at Agnews State Hospital.

**Assistance to Local Agencies for Mental Retardation Services—Continued**

This program has the capacity to serve 500 hospitalized mentally retarded who demonstrate some potential for benefiting from rehabilitation services and who do not require intensive medical or psychiatric care.

Also under contract with the Department of Mental Hygiene, the department operates separate comprehensive vocational rehabilitation units for the mentally retarded at DeWitt, Fairview and Patton State Hospitals. Vocational rehabilitation counselors are stationed both in the hospitals and in the surrounding communities to provide a continuity of service after mentally retarded patients leave the hospitals. The number of retarded served by this program is relatively small, with approximately 150 clients at the four hospitals that have rehabilitation units.

The total number of persons deemed to be rehabilitated in fiscal year 1967-68, under both cooperative programs with the Department of Mental Hygiene, is estimated to be 30. The department points out, however, that these programs are only in the second year of a scheduled four-year operation.

The Department of Rehabilitation also utilizes federal funds as well as state funds to provide six vocational rehabilitation counselors and counseling services for the mentally retarded who are being served by the regional diagnostic and counseling centers operated by the Department of Public Health. Counselors are present at the two centers in operation in San Francisco and Los Angeles. Seventy-six persons were receiving services under this program in June of 1968.

**Cooperation With School Districts**

In cooperation with 24 local school districts the department operates vocational rehabilitation units to provide services to mentally retarded young people in special education classes. This program is operated on a contract basis and each contract is with the individual school district, not with the Department of Education. The program provides diagnostic services, work evaluation, vocational counseling, work experience, on-the-job training, and job placement and followup. In 1968, 1,673 mentally retarded young people received services under this program and 284 were deemed to be rehabilitated. An estimated \$1.3 million in state and federal funds is scheduled to be expended to support this program in the current year.

In addition to the specific programs mentioned above, the department serves other mentally retarded persons through its regular field services program and in various workshops located throughout the state.

**Department of Education****Special Education**

Since 1947, California has made provision for special classes for the mentally retarded in the public schools. In that year mandatory legislation was enacted to provide special education to "educable" mentally retarded. In 1964 comparable mandatory legislation was enacted to provide for "trainable" mentally retarded children. The growth of these programs since their inception has been substantial. The estimated



**Assistance to Local Agencies for Mental Retardation Services—Continued**

enrollment in classes for the educable mentally retarded as of July 1, 1968, totaled 58,308 while enrollment in trainable mentally retarded classes totaled 8,496. These classes were supported by a transfer from the General Fund to the State School Fund of \$43.8 million in fiscal year 1968-69. This amount includes \$3.2 million provided to school districts for transportation of trainable mentally retarded children.

In addition to funds appropriated on an annual basis to support special education classes, we estimate that \$31.4 million has been made available for the construction of special educational facilities through bond sales since 1952.

**Development Centers**

Under the provisions of Chapter 1538, Statutes of 1967, the Department of Education has the authority to establish development centers for handicapped minors. To date a total of 29 centers has been established. These centers provide day care services for mentally retarded and severely physically handicapped minors who are ineligible for regular day classes or special education courses in the public schools because of the severity of their handicap. This program is an outgrowth of the Children's Center Program and is designed to relieve parents of mentally retarded children to engage in work and to reduce demand for institutional placement without causing physical dislocation. Approximately 1,020 mentally retarded children are receiving day care at these centers at a total annual cost of \$3.1 million.

**Other Agencies Providing Services**

In addition to those state agencies already specifically identified as providing services designed to meet the needs of the mentally retarded, several other agencies provide services which directly affect such persons.

**Department of Employment**

The Department of Employment provides mentally retarded applicants the same services as are available to others seeking employment. Job counselors in the department work closely with private employers such as Goodwill Industries in order to find suitable employment for those applicants specifically identified as mentally retarded. The department, through its local offices, is also engaged in the training of high school youths as babysitters for handicapped children, including the mentally retarded.

**Youth Authority**

The Department of Youth Authority and the Department of Corrections also devote an undetermined but sizable amount of funds and staff to the mentally retarded. It has been estimated that between 12 and 16 percent of the entire caseload of these two departments function at a level of intellectual development which would classify them as mentally retarded. Special programs of education and rehabilitation are provided for such persons.

**Assistance to Local Agencies for Mental Retardation Services—Continued  
Local and Private Agencies**

Local agencies of government, primarily the counties, provide a multitude of services to the mentally retarded. A substantial amount is expended by county probation and welfare departments to provide county placement services for these people. The amount of general relief money expended at the county level for this purpose is unknown, but estimated to be substantial. Another county cost that should not be overlooked is the amount spent by the courts for commitment proceedings.

Many private voluntary agencies also provide services to the mentally retarded and their contribution should not be overlooked. Most extensive among these agencies are the units of the California Council for Retarded Children. These units sponsor local services including parent counseling, day care centers, preschool classes and sheltered workshops.

**WHERE IS THE STATE GOING?**

The existence of so many programs offering services to the mentally retarded located in at least eight different state departments, each under separate jurisdiction and administration, greatly increases the chance that duplication of services will occur. While we do not know that identical services are provided in different programs, we have heard numerous complaints from parents that children are overdiagnosed and undertreated. Diagnosis is an essential part of treatment. Each mentally retarded person must be adequately diagnosed so that the proper service offered by each program may be prescribed. The number of different entry points into the system of mental retardation services, however, causes understandable confusion among parents. In a coordinated system it would seem logical that a person's medical and social evaluations would follow him as his need for services broadened.

**Coordination of Programs**

As a result of a report titled "The Undeveloped Resource" submitted to the Governor and the Legislature by the Study Commission on Mental Retardation in 1965, the Health and Safety Code was amended to provide for coordination of mental retardation programs. Under the terms of this legislation a 15-member Mental Retardation Program Advisory Board was established in the Health and Welfare (now Human Relations) Agency. This board was established "in order to insure the continuity of services, develop a creative interdepartmental and community approach, and coordinate all efforts of federal, state, local and voluntary agencies" in the field of mental retardation. The board was made advisory to the Administrator of the Health and Welfare Agency (now the Secretary of the Human Relations Agency) on the theory that program development and coordination could best be achieved at the agency level. The legislation also provided for the designation of a Coordinator of Mental Retardation Programs and made provisions for staff.

**Assistance to Local Agencies for Mental Retardation Services—Continued**

At the present time, and for the past year, the Secretary for Human Relations has himself been acting as coordinator with staff being supplied on an "as available" basis. This fact, combined with the relative impotence of the Mental Retardation Program Advisory Board, has resulted in minimal coordination and relatively unrelated development of mental retardation programs.

**Who Shall Coordinate?**

A recent development having important implications for the future of mental retardation services warrants attention. The Governor's Reorganization Plan No. 1 became effective on September 14, 1968. Under the provisions of this plan the Director of Mental Hygiene succeeds to and is vested with all the duties, powers, purposes, responsibilities and jurisdiction vested in the Secretary of Human Relations relative to the coordination of mental retardation programs. We are advised by the secretary's office, however, that the secretary intends to retain primary authority for the coordination of mental retardation programs and that the Director of Mental Hygiene will not assume that function.

In light of recent legislation and the controversy surrounding this issue, and inasmuch as the Legislature has given tacit approval to the Governor's reorganization plan, we feel that clarification of this issue is necessary. If the Legislature endorses the transfer of the coordinating function to the Director of Mental Hygiene after having specifically placed this authority at the agency level, this fact should be made quite clear.

**Better Approach Necessary**

Regardless of where the authority to coordinate mental retardation services is placed, the coordinating agency must be given the power to develop and implement a realistic and viable program for the efficient rendering of these services. This will require the administration and the Legislature to work together in the formation of an overall plan for the development of an efficient program. This plan must include the establishment of priorities so that the expenditure of the state's resources, now approaching \$160 million annually, is accomplished on a basis that best benefits not only the mentally retarded, but all the citizens of the state. The present expenditure of \$43 million for special education at a time when graduates from special education classes cannot find employment because of lack of facilities is unrealistic. The continued provision of high-cost institutional care for persons who would be better suited for lower cost community-based services requires a reassessment of priorities.

We recommend, therefore, that the Legislature reassess and reevaluate all existing programs for the mentally retarded with the specific goal of creating a genuine more efficient and effective program approach. Such a program should be designed primarily for the benefit of those profoundly and severely retarded individuals most likely to require continuing service throughout their lifetime.

**Department of Social Welfare  
UNMET SHELTER NEEDS PROGRAM**

**Item 345 from the General Fund**

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Requested 1969-70 .....	\$1,500,000
Estimated 1968-69 .....	1,500,000
Actual 1967-68 .....	None
Requested increase—None	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

Unlike the other public assistance programs, which have continuous appropriations, the Unmet Shelter Needs program requires a fixed appropriation. This program was established under the combined provisions of Chapter 1, Statutes of 1968, and Senate Constitutional Amendment 1, First Extraordinary Session, as approved by the electorate, for public assistance recipients. Funds are to be used to meet the critical housing needs of welfare recipients who are disqualified from receiving property tax relief through the exemption method.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the item.*

The total amount to be spent for 1969-70 on unmet shelter needs is \$3,814,482, of which \$1,500,000 is from the General Fund, \$1,865,200 from federal funds and \$431,800 from county funds. These funds will enable a limited number of public assistance recipients to purchase safety equipment or to repair or move from unsafe or unsanitary housing.

**Department of Social Welfare  
WORK INCENTIVE PROGRAM**

**Item 346 from the General Fund**

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Requested 1969-70 .....	\$731,031
Estimated 1968-69 .....	441,343
Actual 1967-68 .....	None
Requested increase \$289,688 (65.6 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The Work Incentive program (WIN) was established by Chapter 1313, Statutes of 1968. The program is designed to place appropriate AFDC recipients in regular employment through counseling, training and job placement, or to provide employment on special work projects to improve the communities in which they live. Currently the program is operated in the 26 counties having the larger AFDC caseloads and will be extended to other counties as federal funds become available.

**Work Incentive Program—Continued**

The responsibilities of county welfare departments are: (1) refer all AFDC recipients who are trainable or employable to the State Department of Employment; (2) provide social services to the families of those enrolled in the program as needed; and (3) provide for child care when needed and provide training or work-related expenses in addition to the normal public assistance grant. The State Department of Employment staff is responsible for assigning accepted recipients to counseling, tutoring, orientation training, work experience training, or special work projects and for the eventual placement of the recipients. See page 627 for further discussion of this program.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the item.*

A total of \$731,031 is proposed to help pay for work or training-related expenses of a recipient of Aid to Families with Dependent Children (AFDC). Training-related expenses might include such things as additional child care or transportation cost on the part of WIN trainees. The amount proposed is \$289,688, or 65.6 percent above that which is estimated to be expended during the current year. The increase results from federal law which requires the nonfederal share of costs to go from 15 percent to 25 percent.

The AFDC caseload has continued to increase since 1962, but has been more pronounced the last two years. Among the causes contributing to this trend are:

(1) Publicity through the various news media of poverty in the country and the various assistance programs available to the poor.

(2) The activity of community action programs (principally those funded through the Office of Economic Opportunity) including welfare rights organizations and legal assistance groups.

(3) The Medi-Cal and food stamps programs have increased the number of people contacting the county welfare who then learn of their eligibility for one of the maintenance programs and subsequently become recipients.

(4) Court decisions which nullified the durational residency requirement.

To counteract the cost trend, California must emphasize, as did Congress in the 1967 Social Security Amendment, those activities which help reduce the welfare rolls or increase the earned income available to families, principally by providing recipients with the means to become fully or partially self-supporting. The work incentive program, created by the 1967 Social Security Amendment, will have to receive high priority if it is to be successful in even a limited manner. There have been training programs and written regulations and procedures emphasizing employment in the past. However, the programs available and the emphasis given them were not as successful as anticipated.

**Department of Social Welfare  
SPECIALIZED SOCIAL SERVICES PROGRAMS**

Items 347 and 348 from the General Fund

Requested 1969-70	\$19,032,918
Estimated 1968-69	17,326,980
Actual 1967-68	15,096,528
Requested increase \$1,705,938 (9.8 percent)	
Increase to improve level of service \$108,000	
Total recommended reduction	\$108,000

**SUMMARY OF RECOMMENDED REDUCTIONS**

	Amount		Total	Analysis page
	General fund	Federal fund		
Uniform Local Welfare Information System	\$108,000	\$108,000	\$216,000	950

**GENERAL PROGRAM STATEMENT**

The programs included in this group represent highly specialized social service, staff development, and experimental and improvement programs. They include: (1) Demonstration and pilot programs in public assistance, (2) Specialized services for children including child development and protection programs, and adoptions, (3) Public protection programs, and (4) Social Services Administration improvement programs.

The total number of man-years, involved in these activities as shown for the past, current and budget fiscal years are:

Fiscal year	Total	Increase from prior year
1967-68	44.7	--
1968-69 (estimated)	60.0	+15.3
1969-70 (proposed)	59.0	-1.0

**ANALYSIS AND RECOMMENDATIONS**

The budget proposes two appropriations in the amounts of \$374,500 and \$18,658,418 for the cost of various special social service programs administered by the State Department of Social Welfare. The combined appropriations of \$19,032,918 is \$1,705,938, or 9.8 percent, more than is estimated to be expended during the current fiscal year. State funds will be matched by federal funds in the amount of \$16,889,599.

The various programs funded by the proposed appropriations and federal funds are as follows:

	General fund	Federal funds	All funds
Demonstration and pilot programs in public assistance	\$164,548	\$493,642	\$658,190
Specialized services for children	15,830,802	14,471,935	30,302,737
Public protection programs	2,115,750	--	2,115,750
Social Services Administration—improvement programs	921,818	1,924,022	2,845,840
Total	\$19,032,918	\$16,889,599	\$35,922,517

**Specialized Social Services Programs—Continued  
Demonstration and Pilot Programs in Public Assistance**

*We recommend approval of \$164,548 in General Fund money and \$493,642 in federal funds for various public assistance demonstration and pilot programs.*

The budget proposes \$658,190 to carry out several demonstration and pilot programs and projects in public assistance. These include \$320,000 to provide for the placement of mentally retarded ATD recipients to enter sheltered employment, \$218,190 to develop an expanded range of home-care services for aid recipients, and \$40,000 to conduct training programs in economically depressed areas of the state so that aid recipients can meet the requirements for employment set by county welfare departments and other community agencies.

**Specialized Services for Children**

*We recommend approval of \$15,830,802 from the General Fund and \$14,471,935 in federal funds for the support of specialized services for Children.*

The budget proposes a total of \$30,302,737 from state and federal funds to support specialized services for children. This amount includes \$18,591,955 to support preschool educational services for AFDC children, and \$11,710,782 from the General Fund to support the child adoption program.

**Public Protection Programs**

*We recommend approval of \$2,115,750 from the General Fund for the support of public protection programs.*

The budget proposes \$2,115,750 to support special social services in the public protection program. This program is designed to provide assurance to the public that agencies and facilities offering specialized services to children and aged persons have met certain prescribed standards. To accomplish this end, the department inspects and issues licenses to such facilities.

**Social Services Administration—Improvement Programs**

The budget proposes \$2,845,840 (\$921,818 General Fund and \$1,924,022 federal funds) to establish projects to improve various aspects of welfare administration, including program planning, organization, reporting and accounting. This is an increase of \$378,690 or 15.3 percent over the 1968-69 budget for these projects.

**Uniform Local Welfare Information System**

*We recommend a total reduction of \$216,000 proposed for the uniform local welfare information system, traditional budget page 750, line 64, of which \$108,000 is General Fund and \$108,000 federal funds.*

The department proposes the development and implementation of a uniform local welfare information system at a total cost of \$216,000, half of which would be from the General Fund. The proposed project is to reduce the administrative burden on counties related to fiscal reporting and paper processing. Administrative simplification and an improved information system is anticipated by the department as a result of the project. Because federal and county funds are the primary

## Specialized Social Services Programs—Continued

source of administrative cost the primary savings, as a result of this project, will accrue to federal and county funds.

We are recommending against the uniform local welfare information system because we feel this proposal, to be satisfactory, would require uniform procedures between counties and the state.

To be successful, all 58 counties, the state and the federal government would have to be completely committed and involved in the system study. The implementation of this program if approved would have to take place at a time when local governments are currently installing and improving their own independent systems, thus making an integrated uniform welfare information system even more difficult to accomplish. In our opinion this massive undertaking would be most difficult in the present state-county welfare organization.

Current administration and reporting problems could be greatly improved through a uniform automated system, with the possibility that in time counties and the state could be linked together in one system. However, to achieve such a system now would require the complete cooperation of all parties involved. Under the present state-county system it is inconceivable that counties which have already developed complex data processing systems will discard their systems in favor of a state system, should a state system ever be developed. Although it may be possible to reconcile these systems, we feel the problems of attempting such a project within the present welfare organization would be insurmountable. The fact that the State Department of Social Welfare would have to design multiple systems to be used in counties that vary in size, sophistication and in type of equipment would also complicate any effort in this area. There is little uniformity among the computer coding systems in the counties and there are several different computer-languages presently in use.

A previously proposed statewide uniform data processing system was to be developed by the staff of the State Department of Social Welfare in cooperation with the California County Supervisors' Association. The 1966-67 budget authorized 25 positions for this purpose and costs were estimated at \$284,050, of which \$119,303 was to be General Fund and \$164,751 was to come from federal funds. As late as March 1967, the State Departments of Social Welfare, Finance, the Personnel Board, and the counties were still trying to determine how to proceed. In the meantime, 17 of the largest counties in the state were in the process of developing their own independent data processing systems. Because little progress was being made on the uniform system project, the Legislature eliminated funding of the project for the 1967-68 fiscal year.

The cooperation necessary to make the uniform system proposal a success would only be possible if all the governmental bodies involved participated in the cost and completion of the study. Participation should include a federal-state-county cost sharing formula and a study plan, as well as specific responsibilities of the three governmental agencies involved prior to the start of this type of study.

Under our recommendation of state administration such a uniform data processing system would be entirely possible. State administration of welfare would provide a single direction and a single system to be



## Specialized Social Services Programs—Continued

administered in all counties. The design of a computer base system of welfare administration would be a natural outgrowth of state administration. Without such administration, we seriously doubt if the system approach under consideration will have much success.

**FLOOD CONTROL AND WATERSHED PROTECTION PROJECTS**

## Item 349 from the General Fund

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Requested 1969-70 .....	\$10,300,000
Appropriated for 1968-69 .....	13,000,000
Appropriated for 1967-68 .....	11,250,000
Requested decrease \$2,700,000 (20.7 percent)	
Total recommended reduction—None	

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**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

The state has, since 1945, assumed the costs of lands, easements, and relocation of utilities which federal law requires local governments to pay on any United States Corps of Engineers flood control projects involving levee and channel work. Money requested in this item is to reimburse cities, counties and districts for the above costs on such flood control projects, except those projects administered by the State Reclamation Board. The flood control projects, both major and minor, which will receive funds under this item are shown on page 759 of the Governor's Traditional Budget.

This item also includes funds for watershed protection projects. Sections 12850 to 12875 of the Water Code authorize the Department of Water Resources to reimburse local agencies for costs of lands, easements and relocation of utilities for watershed protection projects constructed by the U.S. Soil Conservation Service. Projects being funded by this item are shown on budget pages 759 and 760.

In line with the practice of past years, the total estimated expenditures have been reduced by an expenditure timing adjustment in order to reflect more accurately the expected level of disbursement. This adjustment is appropriate because of difficulties in anticipating the rate of federal expenditure and the speed with which local agencies will request reimbursement from the department for the funds they expend on a project.

Although this program has been budgeted as a subvention in past years, it was budgeted as a capital outlay program in 1968-69 in order to finance it from the \$90 million dollars in General Fund revenues earmarked for capital outlay when the Legislature increased taxes two years ago through enactment of Chapter 963. This appropriation was returned to the local assistance section of the budget from the capital outlay section through legislative action on the current year's budget and remains as a local assistance item in the 1969-70 Budget. Present indications are that the projects in the Governor's Budget are consistent with the President's Budget.

**BEACH EROSION CONTROL**

**Item 350 from the General Fund**

Requested 1969-70 .....	\$362,500
Appropriated for 1968-69 .....	507,400
Requested decrease \$144,900 (28.6 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This item provides the state's contribution to a federal program, executed by the U.S. Corps of Engineers, to control dangerous erosion along the ocean beaches of the state. Under Sections 335 through 338 of the Water Code, the Department of Water Resources pays one-half of the project costs assigned to local interests.

Last year this program was budgeted as capital outlay. The Legislature returned it to the Local Assistance portion of the budget where it had been previously budgeted. This year it is budgeted as a local assistance item consistent with legislative action last session.

Two projects are budgeted for next fiscal year. One is a continuation of a long-term, major project in Orange County from Anaheim Bay Harbor to Newport Bay and the other is a new small project at Royal Palms in Los Angeles. Based on present information, the requests for these two projects are consistent with the matching funds in the President's budget.

**Department of Harbors and Watercraft  
LOANS FOR PLANNING AND HARBOR DEVELOPMENT**

**Item 351 from Harbors and Watercraft Revolving Fund**

Requested 1969-70 .....	\$4,025,000
Amount appropriated in 1968-69 fiscal year .....	4,050,000
Amount appropriated in 1967-68 fiscal year .....	4,850,000
Requested decrease—\$25,000 (0.6 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

The Department of Harbors and Watercraft is responsible for developing boating facilities and small craft harbors throughout the state. The department meets this responsibility through a series of loan and grant programs to local agencies of government. The harbors and Watercraft Commission provides policy direction to the department in the program.

The main source of funding for most of the local assistance is the Harbors and Watercraft Revolving Fund. That fund receives most of its moneys from the annual transfer of \$4,000,000 from the Motor

Loans for Planning and Harbor Development—Continued

Vehicle Fuel Fund. This amount is attributable to the taxation of boat fuel. Chapter 2028, Statutes of 1965, increased the amount of the annual transfer from \$2,000,000 to \$4,000,000. In addition, all revenue from boat registration fees, as provided by Chapter 1724, Statutes of 1963, is deposited in the Harbors and Watercraft Revolving Fund.

On June 30, 1968, there was an accumulated surplus of \$3,490,024 in the Harbors and Watercraft Revolving Fund. Budgeted expenditures by the department will reduce the surplus to an estimated balance of \$122,483 at the end of the budget year.

In addition to the revolving fund, the department has been utilizing the balance remaining in the Small Craft Harbor Bond Fund as a source of funding for local assistance projects. The department may spend Harbor Bond funds without Legislative appropriation. On June 30, 1968, there was a balance of \$788,148 in the bond fund but most of that will be expended in the current and budget years. The estimated balance in the bond fund at the end of the budget year is \$74,213.

Table 1 indicates expenditures for the local assistance program over a five-year period and the source of funding for that program. The increase in expenditures has resulted from the increase from \$2,000,000 to \$4,000,000 annually in the amount of money available from the Motor Vehicle Fuel Fund.

Table 1  
Loans and Grants to Local Agencies for Small Craft Harbors

<i>Fund</i>	1965-66	1966-67	1967-68	1968-69*	1969-70*
Small Craft Harbor Bond Fund -----	\$195,000	\$333,625	\$871,896	\$705,451	-
Federal Land and Water Conservation Fund -----	-	-	-	-	\$208,250
Harbors and Watercraft Revolving Fund -----	1,116,952	1,949,822	4,999,186	4,022,500	5,011,350
Totals -----	\$1,311,952	\$2,283,447	\$5,871,082	\$4,727,951	\$5,219,600

\* Estimated.

Decline in Federal Funds for Harbor Construction

In prior years, the department has requested appropriations for projects which have depended substantially on the appropriation of federal funds to the U.S. Army Corps of Engineers. Recently, federal appropriations for new projects have been almost eliminated. Last year the department budgeted one project, a harbor improvement loan for Bodega Bay, which included participation by the federal government. The federal funds have not been made available and the project has been dropped from the budget. In the 1969-70 budget, there is a project for Monterey which will require federal funding. However, the federal project funds for Monterey have not been included in the President's budget recently submitted to Congress. As a result of the lack of federal funds, the commission has in some cases been providing state financing of costs that would otherwise have been a federal responsibility.

Loans for Planning and Harbor Development—Continued  
Boating Facilities for State Park System

Section 85.2 of the Harbors and Navigation Code provides that up to 12½ percent (\$500,000) of the \$4,000,000 transferred annually from the Motor Vehicle Fuel Fund to the Harbors and Watercraft Revolving Fund may be appropriated for construction of boating projects in the state park system. This year Items 413, and 414 include \$849,800 from the revolving fund for state park projects as follows:

1. Castaic Reservoir .....	\$163,600
2. Del Valle Reservoir .....	60,000
3. Folsom Lake (Brown's Ravine) .....	595,800
4. Minor projects .....	30,400
Total .....	\$849,800

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The department requests appropriations to fund harbor development projects totaling \$4,025,000 as follows:

1. Feasibility and planning study loans .....	\$75,000
2. Emeryville, Alameda County .....	1,000,000
3. Monterey Harbor breakwaters .....	2,500,000
4. Santa Barbara breakwater and sandbar .....	1,700,000
Total .....	\$5,275,000
Less: expenditure timing adjustment .....	—1,250,000
Net amount of appropriation .....	\$4,025,000

The expenditure timing adjustment makes allowance in the appropriation for the fact that not all projects will require funding as scheduled, but it is not certain which projects will not require the funding.

The proposed loan of \$1,000,000 to Emeryville is to finance a portion of the cost of developing a marina. The ultimate project has not been determined. The City of Emeryville and the San Francisco Bay Conservation and Development Commission have been involved in litigation over excavations and bay fill required for the city's project. The Governor's Budget clearly indicates that the project is conditional upon approval of the Bay Conservation and Development Commission and we therefore interpret this legislative appropriation to be based on the same condition of approval.

The loan of \$2,500,000 for the construction of breakwaters at Monterey was originally budgeted in 1967-68 fiscal year. Federal funds required to complete the project have not been made available to date and the federal funds are not included in the President's Budget as submitted to the Congress this session.

The proposed loan of \$1,700,000 to Santa Barbara involves a re-scoping to reduce the cost of a larger project which has been budgeted in each of the past two years based on receiving federal funds. The federal moneys have not been made available. The department now proposes a loan to complete a portion of the project.

**Loans for Planning and Harbor Development—Continued**

It is apparent that a great deal of uncertainty surrounds each of the projects funded by this item. In the analysis of the 1967-68 budget, we indicated that the department budgets for many of its projects prior to determining economic feasibility, and in some cases prior to technical feasibility. The Legislature at that time did not wish to place restrictions on the projects by requiring evidence of feasibility prior to budgeting. All three projects are desirable and the Santa Barbara and Monterey projects rank in the top 10 of needed harbor improvements, according to the 1964 California Boating Plan.

**Shoreside Facilities**

Section 654.1 of the Harbors and Navigation Code states, "Boating facilities constructed with funds derived from the state shall be required as a condition for the receipt of such funds to provide shoreside facilities for purposes of emptying waste matter holding tanks from vessels in accordance with needs and standards as established by the commission." The Harbors and Watercraft Commission has not determined the need and standards for the shoreside facilities.

The Legislature may wish to make the loans for the Emeryville, Monterey and Santa Barbara projects contingent upon provision of shoreside facilities as specified in Section 654.1.

**Department of Harbors and Watercraft  
LAUNCHING FACILITY GRANTS**

**Item 352 from Harbors and Watercraft Revolving Fund**

Requested 1969-70	\$986,350
Estimated 1968-69	622,500
Actual 1967-68	432,186
Requested increase \$363,850 (58.4 percent)	
Total recommended reduction	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*

This item proposes \$986,350 to finance six grants to local agencies for launching facilities. This amount compares with \$444,500 appropriated in the 1968 budget for four projects.

Launching facility grants are requested as follows:

1. Arcata, Humboldt County	\$90,000
2. Coronado, San Diego County	45,000
3. Jones Valley, Shasta Lake, Shasta County	315,000
4. Kings Beach, Lake Tahoe, Placer County	216,750
5. Oakland, Alameda County	156,600
6. Regan Beach, Lake Tahoe, El Dorado County	163,000
<b>Total</b>	<b>\$986,350</b>

In addition to the appropriation indicated above for the Kings Beach project on Lake Tahoe, the department proposes to expend \$208,250,

**Launching Facility Grants—Continued**

which is most of its share of the federal Land and Water Conservation Fund money available for the past three years. The total project costs at Kings Beach are estimated at \$475,000. This amount will include the purchase of 2.1 acres appraised at \$314,000 and the construction of a two-lane launching ramp, parking area, water supply, sanitary facilities and picnic facilities. After the facilities are constructed, the project will be leased to Placer County for operation and maintenance at county expense. This is the first project in which the Department of Harbors and Watercraft has acquired lands. The department is acquiring the land in order to qualify for federal funds.

Two years ago, we indicated that most of the grants for launching facilities made by the department were going to areas which, according to the 1964 boating plan, had a surplus of launching facilities. Again this year, the department is budgeting facilities in the northern part of the state where the plan indicates a surplus exists. The department indicates that bodies of water are not available in southern California for launching facilities. If the department's present position is correct, the portion of the 1964 California Boating Plan devoted to launching facilities appears to be of little value. We have previously called the Legislature's attention to indications that the 1964 California Boating Plan is either deficient or the department is not following it. This budget provides further evidence of deficiencies in the plan and its execution.

**Department of Harbors and Watercraft****REPAYMENT OF GENERAL FUND LOAN FOR HARBOR BONDS****Item 353 from Harbors and Watercraft Revolving Fund**


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Requested 1969-70 _____	\$280,597
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No recommendation until completion of audit by Auditor General.

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**ANALYSIS AND RECOMMENDATIONS**

*No recommendation until completion of audit by Auditor General.*

The Harbor Development Bond Act of 1958 provided \$10,000,000 for loans to local agencies for the construction of boating facilities financed by general obligation bonds of the state. It was contemplated that the bonds would be self-liquidating. However, loans from the General Fund to pay bond interest and redemption have been required. The bond proceeds have been used for purposes almost the same as activities now financed by the Harbors and Watercraft Revolving Fund.

The 1967 Budget Act appropriated \$1,456,663 for the repayment of the General Fund from the Harbors and Watercraft Revolving Fund of cumulative General Fund advances made up to that time for interest and redemption on the harbor bonds. The budget indicates \$974,151 of that appropriation was used to repay the General Fund. The 1969-70 budget proposes to repay the General Fund \$280,597 for advances made

Repayment of General Fund Loan for Harbor Bonds—Continued

in fiscal years 1967-68 and 1968-69. According to the department, there will be a small deficit in 1969-70 which the department intends to repay to the General Fund. By 1971, repayment from the local agencies who received the bond proceeds should be sufficient for redemption and interest payments without advancing any General Fund money.

We have been unable to determine from the budget schedules the basis for either the actual amount of repayment to the General Fund as a result of the 1967 Budget Act or the amount of repayment proposed in the budget year. The Auditor General is now reviewing the repayment as part of his audit of the department. We are reserving any recommendation until completion of that audit which will occur prior to hearings on this item.

**Department of Harbors and Watercraft  
EMERGENCY HARBOR REPAIRS**

**Item 354 from Harbors and Watercraft Revolving Fund**

Requested 1969-70 .....	\$100,000
Amount appropriated in 1968-69 fiscal year .....	100,000
Expenditures in 1967-68 .....	None
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the item as budgeted.*

This appropriation provides authority to spend \$100,000 from the Harbors and Watercraft Revolving Fund for repairs of damage at small craft harbor facilities constructed pursuant to Sections 70.2, 71.4 and 83 of the Harbors and Navigation Code when caused by emergency conditions such as severe storms. The purpose of this appropriation is to utilize the Harbors and Watercraft Revolving Fund as the direct source of moneys for these repairs rather than calling on the General Fund, which in turn would have to be repaid from the Revolving Fund. During the current year, \$100,000 is appropriated for this purpose but to date no money has been spent. Funds may be needed in the current year to repair damage caused by winter storms in southern California.

**Public Utilities Commission  
GRADE CROSSING PROTECTION WORKS**

**Item 355 from the State Highway Fund**

Requested 1969-70 .....	\$1,100,000
Estimated 1968-69 .....	1,100,000
Actual 1967-68 .....	496,465
Requested increase—None	
Total recommended reduction .....	None

**Grade Crossing Protection Works—Continued  
GENERAL PROGRAM STATEMENT**

The Public Utilities Commission manages three railroad crossing safety programs, all supported by the State Highway Fund. The Grade Crossing Protection Works Fund created by Chapter 1739, Statutes of 1953, appropriated \$500,000 to provide the state's share for assisting cities and counties in installing automatic protection at grade crossings on city streets and county roads. The Budget Bill has been used subsequently as the appropriation mechanism, but only for this first railroad crossing safety program. The state contributes 25 percent to the cost of installing each crossing device, local government matches with 25 percent, and the railroad company pays the remainder.

Chapter 1644, Statutes of 1965, amended the Public Utilities Code to provide support for maintenance of the automatic grade crossings on the same cost-sharing basis. Prior to adoption of the 1965 amendment, the railroad companies were responsible for assuming the full cost of maintenance. The 1965 amendment provides for a continuous appropriation of the funds required, as determined by the Public Utilities Commission, up to a maximum of \$1 million per year for maintenance.

The third railroad crossing safety program is the support of grade separation construction pursuant to Chapter 2091, Statutes of 1957. The grade separation program is supported by a continuing appropriation of \$5 million annually.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the amount requested.* The demand expressed by local government for matching funds has been used by the Public Utilities Commission to substantiate its request for funds to support the Grade Crossing Protection Fund program. Based on projecting demand for the 1969-70 fiscal year on the recent trend and on eliminating the backlog of demand over a five-year period, the commission estimates a need of \$1.1 million in the 1969-70 fiscal year.

**SENIOR CITIZENS' PROPERTY TAX ASSISTANCE**

**Item 356 from the General Fund**

Requested 1969-70 .....	\$8,500,000
Estimated 1968-69 .....	7,700,000
Requested increase \$800,000 (10.4 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*  
The Senior Citizens' Property Tax Assistance Program provides financial assistance for the purpose of property tax relief to certain senior citizens. Homeowners who are 65 and over, with a combined



Senior Citizens' Property Tax Assistance—Continued

annual household income of \$3,350 or below, are given direct reimbursements, the amount of which is determined by a formula which considers the amount of property taxes paid and household income. This program is administered by the Franchise Tax Board and a detailed description of it will be found in the analysis of Item 137, the Franchise Tax Board budget. During 1968-69, reimbursements were made to 57,000 claimants. The Department of Finance estimates that 85,000 claims will be paid in the budget year. However, the average value of these claims will be lower in the budget year because these taxpayers will receive part of their relief from the homeowner's property tax rebate and exemption which was authorized by Proposition 1a.

**HOMEOWNER'S PROPERTY TAX RELIEF**

**Item 357 from the General Fund**

Requested .....	\$183,000,000
Estimated 1968-69 .....	183,750,000
Decrease \$750,000 (0.4 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*

This item provides the state funds which will be used to reimburse local governments for the property tax losses resulting from the \$750 homeowner's exemption. This exemption starts in the 1969-70 fiscal year and results from the adoption of Proposition 1a at the November, 1968, election.

The cost of the homeowner's exemption will be \$183 million in the budget year, but \$3.7 million of this amount will be funded from the surplus accumulated in the Homeowner's Property Tax Relief Fund on June 30, 1969. On July 1, 1969, the homeowner's fund will be abolished and the surplus transferred to the General Fund.

The information in Table 1 summarizes the cost of this program in the current and budget years. During 1968-69, an estimated 2.6 million qualified homeowners will receive a one-time \$70 rebate from the State Controller. The \$500,000 cost for increased shelter allowances will be part of the program during the current year only.

Table 1  
Income and Cost of the  
Homeowner's Property Tax Rebates and Exemptions  
(in thousands)

Income	1968-69	1969-70
Portion of state sales tax .....	\$183,750	-
General Fund appropriation .....	-	\$179,300
Transfer of surplus to General Fund.....	-	3,700
<b>Total Income .....</b>	<b>\$183,750</b>	<b>\$183,000</b>

Homeowner's Property Tax Relief—Continued

Table 1—Continued  
Income and Cost of the  
Homeowner's Property Tax Rebates and Exemptions  
(in thousands)

Outgo	1968-69	1969-70
\$70 rebates -----	\$178,000	—
\$750 exemptions -----	—	\$183,000
Controller's administrative expense -----	250	—
Counties administrative rebates -----	1,300	—
Increased shelter allowance for welfare recipients -----	500	—
Total Outgo -----	\$180,050	\$183,000
Ending Surplus -----	\$3,700	—

**SALARIES OF SUPERIOR COURT JUDGES**

Item 358 from the General Fund

Requested 1969-70 -----	\$8,837,376
Estimated 1968-69 -----	8,356,466
Actual 1967-68 -----	6,217,068
Requested increase \$480,910 (5.8 percent)	
Total Recommended Reduction -----	None

**GENERAL PROGRAM STATEMENT**

This budget item is to provide the state's share of Superior court judges' salaries as required by Section 68206 of the Government Code. The state and county shares of each Judge's salary is determined by county size as follows:

Population of county	State share	County share	Total salary
250,000 or more -----	\$21,072	\$9,500	\$30,572
40,000 to 250,000 -----	23,072	7,500	30,572
40,000 or less -----	25,072	5,500	30,572

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of this item.*

The \$8,837,376 requested for 1969-70 is to provide the state's share of the salaries of 408 judges currently authorized for the superior courts of California. The substantial increase in this item in 1968-69 and 1969-70 over 1967-68 is due to an increase in superior court judges and a quadrennial 22.289 percent raise for all judges effective September 1, 1968. It should be noted that the county share of each superior court judge's salary is fixed at a specified amount by Section 68207 of the Government Code, therefore this and all future salary adjustments are to be borne by the state unless Section 68207 is modified.

Out of anticipated salary savings resulting from vacancies, \$60,000 of this appropriation is transferred to the Assigned Judges Program, administered by the Judicial Council to provide for temporary replacements.

**CONTRIBUTIONS TO JUDGES' RETIREMENT FUND****Item 359 from the General Fund**

Requested 1969-70	-----	\$1,100,000
Estimated 1968-69	-----	1,170,000
Actual 1967-68	-----	700,000
Requested decrease \$70,000 (6.0 percent)		
Total recommended reduction		None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

## 1. Extend service of judges beyond age 70.

We recommend consideration of legislation to permit judges to remain on the bench beyond age 70 without reduction in benefits which are payable if retirement occurs at age 70. (Analysis page 963).

## 2. Base retirement benefits on salary at time of retirement rather than on salary of incumbent.

We recommend consideration of legislation to change the base for computation of retirement benefits from incumbent's salary to salary received at time of retirement with cost-of-living increase provision. (Analysis page 963).

## 3. Base widows' benefits on an actuarial determination in lieu of one-half retired judges' benefits.

We recommend legislation under which a widow's benefit would be based on an actuarial computation rather than the present provision which provides one-half of the judge's benefit. (Analysis page 964).

**GENERAL PROGRAM STATEMENT**

This item supplements the continuing appropriations made to the Judges' Retirement Fund by the state under Section 75101 of the Government Code and the contributions made to the fund by all judges serving on the municipal courts through the Supreme Court. The continuing appropriations and the judges' contributions each constitute eight percent of the salaries which will be payable to the estimated 785 active judges who will be members of the retirement system in the budget year.

The State Controller, who administers the Retirement Fund, has determined that the total funds available from these two sources will not meet the anticipated benefit payments by an amount estimated at \$1,100,000. This item therefore appropriates that deficiency amount as required by law to insure that all obligations of the fund will be met.

The \$70,000 reduction in the budget year reflects two factors: (1) an increase in the number of judges contributing to the system and (2) larger contributions from the state and the members resulting from the 22.28-percent statutory salary increase which was effective in September 1968.

Table 1 indicates the total amount of the General Fund contributions to the system, including the continuing appropriations and the \$1,100,000 proposed by this item, for payment of judges' retirement benefits in the budget year.

## Contributions to Judges' Retirement Fund—Continued

Table 1

Direct General Fund Support of the Judges' Retirement Fund  
Fiscal Year 1969-70

Contribution by continuing appropriation for justices of Supreme and Appellate courts -----	\$154,183
Contribution by continuing appropriation for judges of municipal and superior courts -----	1,736,514*
Total contribution by continuing appropriation -----	\$1,890,697
By budget item appropriation -----	1,100,000*
Total General Fund support -----	\$2,990,697

\* Sum of these two amounts (\$2,836,514) represents that part of the contribution to the Judges' Retirement Fund budgeted as local assistance.

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval as budgeted.*

The solvency of the Judges' Retirement Fund has deteriorated progressively since fiscal year 1960-61 when the receipts to the fund from the statutory contributions at the then 2.5-percent rate first fell below the level of disbursements. In an effort to correct the deficit condition of the fund, the contribution rate for both the state and the members was raised to 4 percent in 1963 and to 8 percent (the current level) in 1964. However, subsequent liberalization of retirement benefits and increases in judges' salaries on which the benefits are based have more than offset the gain to the fund by the increases in contribution rates. Although the unfunded liabilities arising from the present membership of the system could be reduced by increasing the members' contribution rate, we do not believe this alternative is acceptable when considered in relation to the relatively advanced age at which judges enter service, which is a feature of the judicial system.

## Need to Reduce Unfunded Liabilities and Escalation of Costs

*We recommend that the Legislature enact legislation to improve the financial soundness of the system.*

It should be noted that any legislation which would reduce existing benefits would apply only to judges taking the bench after the effective date of such legislation. We recommend for consideration the following:

1. Legislation which would permit judges to remain on the bench beyond age 70 without a subsequent reduction of retirement benefits. Under the current incentive retirement plan, retirement benefits are reduced for judges who remain on the bench past age 70. The Controller estimates that a provision allowing judges to remain on the bench to age 72, for example, would produce immediate annual savings in excess of \$100,000 for the retirement fund.
2. Legislation which would base retirement benefits on the salary received at the date of retirement with a provision for cost-of-living increases. Currently, retirement benefits are based on the salary of the incumbent of the office from which the individual retired.

Contributions to Judges' Retirement Fund—Continued

3. Legislation to base widows' or survivors' benefits on an actuarially determined computation. The present allowance of one-half of the judges' benefits is becoming one of the most significant cost factors associated with the system's continuing financial problems. Costs for widows' benefits have increased steadily from \$279,160 in fiscal year 1963-64 to \$717,241 in 1967-68.

**Department of Veterans Affairs  
COUNTY VETERANS SERVICE OFFICERS**

**Item 360 from the Farm and Home Building Fund**

Requested 1969-70	-----	\$500,000
Estimated 1968-69	-----	500,000
Actual 1967-68	-----	499,990
Requested increase—None.		
Total recommended reduction	-----	None

**GENERAL PROGRAM STATEMENT**

County veterans service officers may be appointed by the board of supervisors of any county. The duty of the county veterans service officer is to provide the aid necessary to assist veterans and the dependents of deceased veterans to prepare, present and pursue any claim the veteran may have against the United States resulting from war service, and in establishing the veteran's right to any privilege, preference, care or compensation provided by the laws of the United States or of this state. The county veterans service officer has the authority to administer and certify oaths and affirmations, and to take and certify affidavits and acknowledgments.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of the item as budgeted.*

The total state appropriation for this purpose has remained at \$500,000 since the 1961-62 fiscal year. Payments toward the salary of a service officer cannot exceed \$75 a month. Counties may also use these allocated funds to pay part of the salaries of assistants to service officers and operating expenses as determined by the California Veterans Board. The total amount allocated to any one county cannot exceed \$35,000 per year.

**State Disaster Office**

**WORKMEN'S COMPENSATION FOR DISASTER SERVICE WORKERS**

**Item 361 from the General Fund**

Requested 1969-70	\$51,000
Estimated 1968-69	50,000
Actual 1967-68	38,164
Requested increase \$1,000 (2 percent)	
Total recommended reduction	None

**ANALYSIS AND RECOMMENDATIONS**

Workmen's compensation for disaster workers is provided for by Chapter 10, Division 4, of the Labor Code. There are some 25,000 to 40,000 volunteer disaster service workers who risk injury in the course of their service or training.

*We recommend approval of the item as budgeted.*

**PEACE OFFICERS STANDARDS AND TRAINING**

**Item 362 from the Peace Officers Training Fund**

Requested 1969-70	\$4,927,400
Estimated 1968-69	3,948,300
Actual 1967-68	1,596,062
Requested increase \$979,100 (24.8 percent)	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

This item provides assistance to cities and counties that qualify for state aid for peace officer training pursuant to the provisions of Chapter 1823, Statutes of 1959. Each jurisdiction participating in the program is reimbursed from the Peace Officers Training Fund for up to 50 percent of the salaries and expenses of officers who are selected to participate in training programs.

Chapter 1640, Statutes of 1967, gave the Commission on Peace Officers Standards and Training the responsibility of providing counseling services to local police agencies for the purpose of improving their administrative and operating procedures.

Revenues accruing to the Peace Officers Training Fund are derived from a penalty assessment of \$5 for every \$20 of criminal fines and \$1 for every \$20 of traffic fines. Revenues for the current year are estimated at \$6,250,000.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The sum of \$4,927,400 is requested for the budget year from the Peace Officers Training Fund. This is an increase of \$979,100 or 24.8

**Peace Officers Standards and Training—Continued**

percent over estimated expenditures of \$3,948,300 for the current year. Chapter 1305, Statutes of 1968, provided the \$1 penalty assessment on traffic fines, which is estimated to increase revenues to the Peace Officers Training Fund by approximately \$4,000,000 annually. A deficiency authorization of \$1,885,506 was granted to the commission in the current year to allow it to expand existing programs. Most of the deficiency authorization (\$1,792,284) will be allocated to cities and counties to defray the costs of peace officer training, and the balance of \$93,222 will cover additional administrative expenses of the commission.

**ASSISTANCE TO COUNTIES FOR PUBLIC DEFENDERS**

**Item 363 from the General Fund**

Requested 1969-70	-----	\$775,000
Estimated 1968-69	-----	775,000
Actual 1967-68	-----	600,000
Requested increase—None		
Total recommended reduction	-----	None

**GENERAL PROGRAM STATEMENT**

This item is authorized by Section 987(b) of the Penal Code and is a subvention to counties for not to exceed 10 percent of the cost of providing legal assistance to indigents charged with a violation of the criminal laws of the state.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval of this item.*

The total amount requested for 1969-70 is \$775,000, which is the same amount as appropriated for 1968-69. It is estimated that the counties will expend \$10 million in 1968-69 and \$12 million in 1969-70 to provide the required legal services. The proposed amount for 1969-70 therefore represents 6.5 percent of the estimated county expenditures for this purpose.