purpose of the consolidation was to produce savings which could partially fund the Office of the Secretary for Environmental Quality. In mid-1975, the Legislature rejected the Governor's reorganization plan, and it was not resubmitted last year. However, a de facto agency has been in partial operation in spite of the Legislature's action.

The positions in the de factor agency office are presently funded in the budgets of the Governor's Office and the Air Resources Board. The CAS is financed by assessments made on the Water Resources Control Board, the Air Resources Board and the Solid Waste Management Board. The expenditures and positions of the CAS show in the budget of the Water Resources Control Board as a matter of convenience because they must be shown somewhere. The chief of CAS has been supervised by the de facto secretary even though there is no legal basis for such supervision.

We have seen no evidence that the consolidated organization has produced any savings. In fact, costs for CAS appear to have mounted rapidly even after considering workload increases. In 1975–76, expenditures were approximately $1,445,000. For 1977–78 they are estimated at $2,054,908. We note also that some of the functions which CAS originally performed, such as budgeting, have been reassumed by its clients.

For 1977–78, the budget of the Water Resources Control Board contains an increase of 7 positions for CAS. Funding for these positions should not be approved. The three client agencies of CAS should present their funding needs for their own administrative systems, and their budgets should be adjusted to return responsibility for their administrative services to them.

Health and Welfare Agency

DEPARTMENT OF AGING

Item 237 from the General Fund — Budget p. 572

Requested 1977–78	$1,301,409
Estimated 1976–77	1,288,758
Actual 1975–76	1,315,120
Requested increase $12,651 (1.0 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Management Practices. Recommend development of policy and procedural statements for fiscal and programmatic controls with a report to the fiscal committees April 1, 1977.	454
2. Reduce Regional Offices. Recommend department phase out regional offices in Fresno and Oakland.	457
3. Merger of Nutrition Projects with Area Agencies on Aging. Recommend the Legislature require completion of merger by time of projects' 1980 renewal cycles.	457

DEPARTMENT OF AGING—Continued

4. Moratorium on Designation of AAA. Recommend moratorium on designation of new Area Agencies on Aging until July 1, 1978. 458

GENERAL PROGRAM STATEMENT

The California Department of Aging is authorized as the single state agency to administer funds which are allocated to the state under the federal Older Americans Act of 1965 as amended. The two major programs under the act are Title III, providing for coordination of comprehensive services to the elderly, and Title VII, providing for nutrition programs for the elderly. The department is responsible for planning, coordinating and monitoring programs to stimulate the development of a statewide network of comprehensive services which will promote the dignity, health and independence of older persons.

The Governor's Budget identifies five programs that are administered through the department; Field Operations, Program Support, Administration, Director's Office and Commission on Aging. The Commission on Aging is semi-independent of the department. The Commission is mandated by state law to act in an advisory capacity to the department and various other governmental entities and to serve as the principal advocate body in the state on behalf of older persons.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation of $1,301,409, an increase of $12,651, or 1.0 percent, over the current year. The total budget proposal including federal funds is $33,261,539, an increase of $3,917,149, or 13.3 percent, over estimated current year expenditures. Approximately $2.4 million will be spent for the administration of the department and the commission, $9.2 million will be available in cash grants to Area Agencies on Aging (AAAs) and direct service agencies to provide for coordinated services to seniors and $16.7 million will be available in cash grants to fund

Table 1
Department of Aging
Estimated Total Expenditures
1976–77 and 1977–78

Expenditure Items	*Estimated 1976–77*	*Proposed 1977–78*	*Percent Change*
Department of Aging administrative costs	$2,209,048	$2,221,933	+0.6%
Commission on Aging administrative costs	195,586	202,028	+3.3
Cash grants, coordinated services, Title III	9,213,545	10,625,333	+15.3
Cash grants, nutrition projects, Title VII	16,736,582	19,379,250	+15.8
Special Items			
State reserve for nutrition	141,000	141,000	-
Long-range planning	123,216	-	NA
Nursing Homes Ombudsman	74,449	41,031	−66.7
Title III, model projects	123,103	123,103	-
Title IV A, training grants	527,861	527,861	-
Total	$29,344,390	$33,261,539	+13.3%
General Fund	$1,288,758	$1,301,409	+1.0%
Federal funds	$28,055,632	$31,960,130	+13.9%

nutrition projects throughout the state. Table 1 compares estimated total expenditures for fiscal year 1976–77 with the proposed budget for 1977–78.

PROGRAMS ADMINISTERED UNDER TITLES III AND VII OF THE OLDER AMERICANS ACT

The Department of Aging administers the two major programs (Coordinated Services for Aging and Nutrition Projects) authorized and funded through the Older Americans Act of 1965 as amended. Both programs are operated through contractual arrangements with local government jurisdictions or private nonprofit organizations. The department administers and monitors the contracts through regional offices located in Los Angeles, Oakland and Fresno.

Coordinated Services for Older Persons—Title III

Title III of the Older Americans Act provides for coordination of services to the elderly (age 60 and over).

For administrative purposes the Department of Aging has divided the state into 25 Planning and Service Areas (PSAs). Within 15 of those 25 areas, the department has designated Area Agencies on Aging (AAAs) which range in size from one county to several counties and the City of Los Angeles. The 15 AAAs have approximately 90 percent of the state's elderly population within their jurisdiction. Each AAA is responsible for development of the planning and coordination of services within its area.

The Coordinated Service program is carried out through contracts negotiated with designated AAAs throughout the state. Each AAA must (a) develop an area plan including demographic data about the elderly population, available services, service gaps, etc., and (b) fund those service projects which best meet the priority needs identified in the area plan.

A problem exists in that the many services available to older persons through a variety of sources are often fragmented and overlapping. Many seniors do not know services exist or how to apply for them. The task of bringing together these disjunctive services into a statewide service delivery system is the responsibility of the Department of Aging through the AAAs.

Services to the elderly in the 10 PSAs outside the jurisdiction of the designated AAAs are established through grants to direct service agencies (DSAs). Services provided through DSAs are primarily of a coordinating nature such as information and referral services.

Nutrition Projects—Title VII

The objective of the nutrition program is to provide low-cost, nutritionally sound meals to needy senior citizens on a regular basis in attractive surroundings. Federal regulations require that each project be located in an area serving target groups of eligible persons having the greatest need for nutrition services. Criteria for selection of target groups include identification of elderly persons who do not eat adequately because of poverty, lack of knowledge, limited mobility or lack of motivation. Each nutrition project approved by the department is usually required to serve, in a congregate setting, a minimum of 100 nutritionally balanced meals daily, five days or more a week.

DEPARTMENT OF AGING—Continued

The projects, which must also provide minimum social services to participants, are seen as one alternative to the institutionalization of seniors resulting from physical and mental deterioration caused by inadequate nutrition and/or personal isolation.

Management Practices

We recommend that the department (1) develop detailed policy and procedural statements relating to the establishment of effective fiscal controls for all Title III and Title VII grants; (2) adopt the federal evaluation forms for monitoring and evaluating Title III and Title VII projects and train field staff in their usage; (3) direct field staff to concentrate on completing the federally required evaluation visits in a timely and meaningful manner; and (4) report progress on the solution to these problems to the legislative fiscal committees on or before April 1, 1977.

The State Department of Finance Program Evaluation Unit prepared a report in September 1974, which found that the Office on Aging (now the Department of Aging) had failed to establish an effective management system in relation to both Title III and Title VII programs. As a result, grant applications were not being evaluated objectively, fiscal controls over the grants were inadequate, local programs were not operating effectively or efficiently and there were high risks of misappropriation or misallocation of funds.

In October of 1975, the Joint Legislative Audit Committee reported that the same basic problems still existed a year after the Department of Finance report. The audit committee further pointed out that over $14 million in federal funds which were potentially available for distribution for programs for the seniors had not been distributed due to the management practices of the office.

In commenting on the report of the Joint Legislative Audit Committee, in last year's *Analysis of the Budget Bill,* we noted that there were a number of factors beyond the control of the department which led to the unspent federal funds. One major cause for the unspent money was the past federal funding procedure which allowed appropriated funds being used for senior programs to be available for up to three years. Such funding will be discontinued effective September 30, 1977. A second major factor which led to an excess of unspent federal funds was the start-up process of new grantee projects. The start-up process usually leads to a delay in both the allocation and the expenditure of available funds. Most of the projects which are now receiving grants, however, are renewals rather than new grants.

Because these two major contributing factors are now removed, the department should be able to design administrative controls that will assure timely expenditure of federal funds for seniors. The amount of unspent federal funds is larger this year than it was a year ago. There were, as of October 31, 1976, over $16 million in unspent federal funds from the fiscal years which ended June 30, of 1974, 1975 and 1976. In addition, there are $5.4 million from the federal transition quarter ending September 30, 1976 (July 1 to Sept. 30, 1976), and $28.3 million that must be encumbered during the current fiscal year. The $28.3 million consists of $10.6 million for Title III, Coordinated Services, and $17.7 million for Title VII nutrition projects.

Table 2 shows the federal funds available to California, encumbered and requested by grantees during fiscal years 1973–74 through 1976–77.

Table 2
Federal Fund Obligations and Expenditures
1973–74 through 1976–77
As of October 31, 1976

	Fiscal Year 1973–74[a]	*Fiscal Year 1974–75*[a]	*Fiscal Year 1975–76*[a]	*1976 Transition Quarter*[a]	*Fiscal Year 1976–77*[a] *(October–September)*
Title III Coordinated Services					
Available	$4,780,795	$6,837,118	$8,028,222	$2,720,674[b]	$10,625,833[c]
Encumbered	4,743,047	6,815,586	8,027,682	2,720,673	—
Requested by grantee	4,251,408	5,790,467	2,125,159	—	—
Unrequested by grantee	491,639[d]	1,025,119[d]	5,902,523	2,720,673	—
Title VII Nutrition					
Available	$8,454,413	$10,609,656	$10,773,954	$2,693,488[b]	$17,724,803[c]
Encumbered	8,451,488	10,609,656	9,524,630	—	—
Requested by grantee	8,406,655	9,446,469	2,099,909	—	—
Unrequested by grantee	44,833[e]	1,163,187	7,424,721	—	—

[a] Federal fiscal year funding; does not necessarily correspond to state fiscal year.
[b] Available July 1976.
[c] Available October 1976. Must be obligated by July 1, 1977.
[d] Balance is result of carryover not transferred to current contract due to late closeouts.
[e] Unused balance on two contracts which ended 6/30/76.

We are concerned by the large amounts of funds which, although encumbered, have been unrequested by the grantees. The fiscal controls of the department are inadequate to assure timely expenditure of funds. Once a federal fiscal year is completed the funds obligated cannot be reallocated to another local agency. They must either be reallocated to the same agency or returned to the federal government. We understand that at least $50,000 from fiscal year 1973–74 will be returned to the federal government.

The department is considering the establishment of new fiscal policies which will create an incentive for local agencies to expend grants in an appropriate manner within the fiscal year. We endorse these efforts. However, the department indicates that this may result in returning substantial amounts of unspent funds to the federal government. We believe the department should be able to design fiscal controls which will insure proper utilization of funding without experiencing the loss of funds which are needed to secure vital services for California's senior citizens. We are, therefore, recommending that such controls be designed and a report be presented to the fiscal committees by April 1, 1977.

Management Failure. The department's management of Title III and Title VII funds has not improved during the past year. The department has failed to establish procedures for timely evaluations of grantees. Al-

DEPARTMENT OF AGING—Continued

though federal regulations require that each AAA and DSA be evaluated once a year and that nutrition projects be evaluated once a quarter, neither of these requirements is being accomplished.

State oversight of AAAs is inadequate. Consequently, AAAs are not properly identifying priority needs of the elderly. Neither are they cataloguing existing resources for the elderly. Resource lists that have been developed are not kept up-to-date. Area plans developed by the AAAs are not followed up by the department to assure that the services being funded are consistent with identified priorities.

Basic procedures for fiscal review of the grantees have never been established and implemented by the department. As a result, no corrective actions are taken even when staff reviews indicate that the grantee is engaged in activities which are not properly funded through the Older Americans Act. Furthermore, when regular fiscal reports submitted by nutrition projects clearly show significant cost variations from the norm, the department has taken no corrective action. In brief, the department has failed to develop the basic management procedures necessary to insure that, fiscally and progammatically, grantees under the Older Americans Act are providing viable and coordinated services to California's senior citizens.

The department should immediately adopt adequate procedures for the development of both fiscal and program standards. Contracts with Title III and Title VII grantees should clearly require conformity to established standards.

Refusal to Implement Evaluation Procedures. After three full years of operating as an office and now a department, under the latest amendments to the Older Americans Act, the department has failed to establish and implement evaluation standards and procedures for both Title III and Title VII. The department indicates that it lacks adequate staffing to develop good evaluation procedures. However, the federal Administration on Aging has developed recommended evaluation procedures for both Title III and Title VII programs which could be implemented immediately by the department. The department has consistently refused to implement these procedures. It evaluates programs in an unorganized, nonuniform manner while waiting to obtain sufficient staff to develop its own evaluation procedures.

Field staff who are visiting both Title III and Title VII projects are often not clear as to their role or function. As a result, there is much wasted effort on the part of the staff in visiting the projects under their jurisdiction. The staff needs to be more oriented toward effective fiscal and management practices and less oriented toward social programs. We believe that this transition could be partially accomplished by immediately adopting the federal evaluation procedures, training staff in their usage and directing staff to give primary emphasis to the use of this evaluation tool in both monitoring the ongoing operations of the projects and in making refunding determinations.

In order to insure that immediate steps are taken by the department to establish workable fiscal controls and effective evaluation procedures, we recommend that a progress report be submitted to the fiscal committees on or before April 1, 1977.

Reduced Number of Regional Offices

We recommend that the department begin immediately to phase out the regional offices in Fresno and Oakland and that all operations be conducted from the central office in Sacramento and the regional office in Los Angeles on or before January 1, 1978.

Currently, the department administers contracts with Title III and Title VII grantees through regional offices located in Los Angeles, Oakland and Fresno. Locating regional offices in the proximity of the grantees may have the advantage of facilitating technical assistance to grantees. This results in a lessening of travel costs and more convenience for the consultants to live closer to their areas of responsibility. However, we believe there are several good reasons for centralizing the staff which is now located in offices in Oakland and Fresno.

Unification of Procedures. One of the major problems that has confronted the department is the lack of consistent application of basic procedures. Each of the three regional offices tends to operate semi-independently of the department. Thus, there tends to be four distinct sets of operating practices and procedures. The southern California area is too large to be served effectively from Sacramento. However, policy-making and implementation problems now experienced by the department could be significantly alleviated by the elimination of the regional offices in Fresno and Oakland.

Less Need for Emergent Intervention. The older an organization becomes, the less need there is for emergent intervention practices. As the AAAs become more established and the nutrition projects more refined in their operation, there is less need to have consultants who are immediately available to these organizations. This lessens the need for regional offices located in the central valley and in the bay area.

Better Utilization of Limited Staff. The centralization of staff would allow for more specializing of consultants as either Title III or Title VII management consultants. This would help to develop better policies and procedures in each program. It is expected that the federal government will be requiring more specialization in these two areas. Furthermore, by having a cadre of consultants at the central office, the department could delegate staff work to some of the consultants, thus better utilizing existing staff to improve management practices. During some of our field visits we were informed by project directors that consultants from the department often visit the projects without any discernable purpose. Centralization of field staff should contribute to a strengthening of staff roles.

Merger of Nutrition Projects With Area Agencies on Aging

We recommend that the Legislature pass a resolution directing each Title VII nutrition project within areas covered by an Area Agency on Aging to be funded through that agency by the beginning of each nutrition project's 1980 renewal cycle.

The nutrition projects spend approximately 17 percent of their grants for social services to project participants. In spite of this significant ex-

DEPARTMENT OF AGING—Continued

penditure for social services, the projects are funded directly by the department rather than through the AAAs which have the responsibility of coordinating all services to the elderly in their respective areas. This practice developed during the early stages of growth of the AAAs at which time they were administratively incapable of handling the funding and monitoring of the nutrition projects.

In 1976 the Legislature directed the department to begin phasing in the funding of Title VII projects through AAAs. On January 7, 1977, the department issued a statement declaring its intention to begin such a program. The merging of the programs will provide a better integration of social service resources in the affected Planning and Service Areas. It should also enable the use of more nutrition project funds to buy meals by providing the needed social services through other resources in the area.

However, some of the area agencies are still not sufficiently developed to assume responsibility immediately for funding and evaluating the nutrition projects, primarily because the department has failed to exercise the proper oversight of the AAAs. Thus, funding of the nutrition projects through AAAs should be phased in where the AAA now has the expertise to administer the funding. New nutrition projects should be funded through the AAAs which are capable of handling the responsibility. Since nutrition projects have individual budgeting cycles, project renewal dates vary. The most orderly merger of the nutrition projects with the AAAs can be achieved by phasing in on a project-by-project basis as renewal dates occur.

In order to insure that the nutrition projects are merged with the coordinated service programs under the planning and coordinating efforts of the AAAs in a timely manner, we are recommending that the Legislature set a firm deadline for the transition to be completed. This will provide the department time to assist AAAs to assume the responsibility and to work with nutrition projects in making the transition.

Moratorium on Designation of AAAs

We recommend that there be an immediate moratorium on the designation of any further AAA's until July 1, 1978, pending the establishment of effective evaluation and fiscal management systems in the Department of Aging.

On December 1, 1976, the Department of Aging released a new policy statement regarding Area Agencies on Aging. The new policy sets as a goal the redesignation of the Planning and Service Areas (PSAs) in the state so that each county within California will constitute a single PSA. This action would increase the number of PSAs from the current 25 to a total of 59 (all of the 58 counties in the state plus Los Angeles City which already is constituted as a separate PSA).

The policy further describes a total of four increasingly responsible types of area agencies which may be designated. Finally, the policy presents a plan to allocate among the 59 proposed PSAs, the $10.6 million Title III funding for fiscal year 1976–77. The state allocation formula attempts to allow for a funding differential for the rural counties in order to improve services to seniors in rural communities.

The projected policy cannot become official until the department obtains formal approval of the amendment to the fiscal year 1976–77 state plan filed with the federal Administration on Aging. Part of the process for such an amendment to be approved requires a formal public hearing, approval by the Governor, and final approval by the Commissioner of the federal Administration on Aging.

Inefficient Resource Utilization. One of the major problems we find with the policy statement is that it provides for a coordination of services to relatively small segments of senior citizens. Originally, there was a requirement that a designated AAA must serve an area containing at least 100,000 senior citizens. There are in the state, 21 counties with less than 5,000 seniors. We believe that attempting to package a comprehensive service delivery system for a relatively small group of people is counter to cost-effective planning and would be an inefficient use of limited resources.

Questionable Assumptions. The policy statement is based on two basic assumptions which are not necessarily consistent with current experience, e.g. (1) the most effective Planning and Service Area is one which coincides with the jurisdictional boundaries of existing county governments, and (2) the most effective administrative body to serve as an AAA is a unit within county government. Contrary to the first assumption, examples in local planning experience have shown there is merit to multi-county coordination activities. In contrast to the second assumption, several of the current AAAs which are units of a single county government have been among the most ineffective and inefficient agencies. In some instances, a private agency contracting with a single county government or with several adjoining county governments may be the most effective means of achieving inter-program coordination.

Administratively Costly. The new policy creates a system that will be costly to administer. To move from 15 existing AAAs to a potential of 59 AAAs, each having a director, will consume the limited Title III resources allocated to California for planning and coordinating services to the elderly. We concur with the department's desire to improve services to senior citizens in rural communities. However, we believe that those needs can be better met through the current practice of funding direct service agencies to provide limited services until such time as a plan can be developed which is based upon a proper evaluation of the current experience. Current AAAs provide coverage for over 90 percent of California's elderly. This coverage should not be needlessly disrupted in an attempt to provide coverage to the remaining 10 percent.

Inadequate Data. The policy has, in effect, been developed in a data vacuum. The department has failed to develop an effective management information system on which to base policy changes. We believe that the department should not designate any new Planning and Service Areas or new Area Agencies on Aging until the current system is properly managed and evaluated. Then policy improvements can be based on the analysis of hard data.

In order to make sure that the planning and service coordination system

DEPARTMENT OF AGING—Continued

in California is both efficient and effective, we recommend that no basic changes be made in the existing system until July 1, 1978.

Health and Welfare Agency

OFFICE OF ALCOHOLISM

Items 238 and 239 from the General Fund — Budget p. 575

Requested 1977–78	$32,735,995
Estimated 1976–77	29,066,168
Actual 1975–76	20,962,088
Requested increase $3,669,827 (12.6 percent)	
Total recommended reduction	Pending

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
238	State Operations	General	$1,578,293
239	Local Assistance	General	29,410,652
Budget Act of 1976, Item 280(g) Research Centers		General	700,000
Budget Act of 1976, Item 280.1 Public Inebriate Project		General	1,500,000
Total Available			$33,188,945
Balance Available in Subsequent Years			−452,950
Total Expenditures			$32,735,995

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Role of Office of Alcoholism. Recommend the office provide to the fiscal committees prior to budget hearings a definitive statement regarding its perceived role under existing law. 461
2. County Program Expansion. Recommend report to the fiscal committees prior to budget hearings regarding implementation of county program augmentation. 463
3. Public Inebriate Project and Research Centers. Recommend report to the fiscal committees prior to budget hearings on status of projects. 463
4. State Hospitals. Recommend report to fiscal committees prior to budget hearings on decision for continuation of Camarillo program and level of hospital services for fiscal year 1977–78. 464
5. Traffic Safety Project. Recommend report to Joint Legislative Budget Committee by November 1, 1977 on office's plan for statewide implementation and evaluation of project. 465

6. Prevention Project. Recommend report to the fiscal committees prior to budget hearings on final project plan and evaluation design. 466

GENERAL PROGRAM STATEMENT

Chapter 1128, Statutes of 1975, established the Office of Alcoholism on January 1, 1976. The office is responsible for administering the state alcoholism program and assisting county alcoholism administrators in developing local programs. Direct alcoholism services are provided by county-administered programs. Chapter 1128 states that county programs shall include the following services: prevention, information and referral, early diagnosis and detection, detoxification, treatment and vocational rehabilitation. Not all county programs currently provide each of these services.

Each county receives an allocation from the General Fund and from federal alcoholism funds. Participating counties also receive state allocations for the Medi-Cal alcoholism program, state hospitals program, vocational rehabilitation program, and a federal allocation for a special project for alcoholic recipients of federal supplemental security income payments. Chapter 1128 requires that General Fund allocations be matched with county funds on a 90/10 basis. Under Chapter 1128, each county is required to prepare and submit a final program budget to the Office of Alcoholism by October 1 of each year. At the time of the preparation of this analysis, the office had received 50 of the 57 county budgets for fiscal year 1976–77. However, because many of these budgets were incomplete or inaccurately prepared, the office has approved only 19.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes a General Fund expenditure of $32,735,995 for the 1977–78 fiscal year, which is $3,669,827 or 12.6 percent more than is estimated to be expended during the current fiscal year. Included in this total General Fund expenditure are amounts of $1,578,293 in Item 238 and $29,410,652 in Item 239 of the Budget Bill as well as $1,747,050 carried over from the 1976 Budget Act. Total program expenditures, including federal funds, are $38,250,235 which is $4,046,514 or 11.8 percent more than the current year.

Table 1 summarizes the office's proposed budget and indicates dollar and position changes from the current year. The major proposed increases are $2 million to expand services provided by county alcoholism programs and a 6 percent cost of living.

Hereafter we make several recommendations that the office provide additional information to the fiscal committees prior to budget hearings because the office appears to be making very slow progress in implementing a number of the projects funded in fiscal year 1976–77. As a result, we have little information available on which to base a recommendation for continued or expanded appropriations for the budget year.

Role of the Office of Alcoholism

We recommend the Office of Alcoholism provide to the fiscal committees prior to budget hearings a definitive statement regarding its perceived role under existing law.

OFFICE OF ALCOHOLISM—Continued

Table 1
Budget Comparison of Total Program Expenditures
1976–77 and 1977–78

Program	Estimated 1976–77	Proposed 1977–78	Change from 1976–77 Amount	Change from 1976–77 Percent
State Administration and Projects	$2,869,549	$3,740,222	$+870,673	+30.3%
Subvention to Counties [a]	31,389,698	34,548,263	+3,158,565	+10.1%
Prevention	(2,035,578)	(2,292,573)	(+256,995)	+12.6
Identification	(4,218,021)	(5,086,504)	(+868,483)	+35.9
Treatment	(21,313,345)	(22,559,332)	(+1,245,987)	+5.8
County Administration	(3,822,754)	(4,609,854)	(+787,100)	+20.6
Total	$34,259,247	$38,288,485	+$4,029,238	+11.8%
Reimbursements	−55,526	−38,250	+17,276	+31.1%
Net Total	$34,203,721	$38,250,235	$+4,046,514	+11.8%
General Fund	$29,066,168	$32,735,995	$+3,669,827	+12.6%
Federal Funds	$5,137,553	$5,514,240	$+376,687	+7.3%
Personnel-Years	67.4	69.4	+2	+3.0%

[a] Includes $1 million for county portion of public inebriate demonstration project and $824,586 for county portion of prevention demonstration project.

In accordance with the provisions of Chapter 1128 our office submitted a report to the Legislature on January 10, 1977 which reviewed the administration of the state alcoholism program. That report stated our opinion that the office had not provided effective leadership in its first year, and had not adequately performed a number of important administrative functions. We concluded that until the office can fulfill its major function of providing direct planning, oversight and review with a greater degree of effectiveness, it should deemphasize exploring areas for possible program expansion.

In subsequent discussions with the Office of Alcoholism regarding our report, the office stated that it had been unable to provide stronger leadership for the state alcoholism program because it lacked the authority to establish statewide priorities. This confusion regarding the appropriate role for the Office of Alcoholism appears to stem from ambiguities in Chapter 1128. For example, Sections 19900 and 19903.5 of the Welfare and Institutions Code require the office to oversee the administration of county programs, administer the statewide alcoholism program, and develop and implement a comprehensive, uniform plan for alcoholism programs throughout the state. However, Section 19920 states that is the intent of the Legislature to grant responsibility to the county to administer and manage all county programs and to encourage the county to establish its own priorities for alcoholism programs.

We believe that unless the office has the authority to establish and implement statewide priorities for the state alcoholism program, there is little need to continue the office at its current funding and staffing level. In our report we indicated a need for the office to identify the administrative and program responsibilities of the office and of individual counties and to define that relationship by policy statements set forth in the state plan. We reiterate this need and recommend that the office provide to the fiscal committees prior to budget hearings a definitive statement regarding its perceived role under existing law. If the office identifies its role as an advisory organization rather than a leadership organization, we believe the Legislature should consider legislative amendments to increase the office's authority or should consider a reduction in the office's administrative budget.

Expansion of County Programs

We recommend the Office of Alcoholism report to the fiscal committees prior to the budget hearings on how counties are spending the $4 million augmentation made for fiscal year 1976–77.

The budget proposes an increased General Fund expenditure of $2 million to expand county services. This would bring the total amount of state and federal funds available for county programs to $34,548,263 for the budget year. A $6 million augmentation for county programs was approved by the Legislature for fiscal year 1976–77. However, the Governor reduced this amount by $2 million and indicated that the full $6 million would be available for fiscal year 1977–78. Budget Act language for fiscal year 1976–77 required that augmentation funds be allocated to counties on a per capita basis with a minimum established for counties with small populations. In addition, the office required counties to use augmentation funds to expand service programs.

At the time of this writing the majority of county budgets for fiscal year 1976–77 had not been approved. As a result, the office was not able to identify how counties were planning to spend the $4 million augmentation for fiscal year 1976–77, e.g., to fund program expansions, new programs, increased costs, replacement of declining grants and revenues, etc. We believe such information should be available for review by the Legislature prior to consideration of an additional augmentation. We therefore recommend that the office provide such information to the fiscal committees prior to the budget hearings.

Public Inebriate Demonstration Project and Research Centers

We recommend the Office of Alcoholism report to the fiscal committees prior to the budget hearings on the status of its public inebriate project and research centers.

Last year, the Legislature added $2 million to the office's budget to fund a public inebriate demonstration project for fiscal year 1976–77 and $1 million for the purpose of establishing research centers pursuant to Chapter 925, Statutes of 1975. Budget Act language for the research centers stated that the $1 million was appropriated without regard to fiscal year.

Table 2 summarizes the expenditures for the two projects as proposed in the Governor's Budget for fiscal year 1977–78. Section 10.08 of the Budget Act of 1976 states that the unencumbered balance of the $2 million for the public inebriate project will be available for expenditure until June 30, 1978. At the time we prepared this analysis, the office had submitted contracts for university research centers and contracts with counties for the public inebriate demonstration project to the Department of Finance but these had not yet been approved. Therefore, we are unable to identify how funds for either project will actually be spent in 1976–77. We are

OFFICE OF ALCOHOLISM—Continued

concerned about the office's delay in starting these projects and believe approval of funds for fiscal year 1977–78 should be based on a review of the office's expenditures in the current year. We therefore recommend the office report to the fiscal committees prior to the budget hearings on its plans for spending $1 million for research centers and $2 million for a public inebriate project during fiscal years 1976–77 through 1977–78.

Table 2
Proposed General Fund Expenditures for Research Centers and Public Inebriate Project 1976–77 and 1977–78

	Estimated 1976–77	*Proposed 1977–78*	*Balance available in subsequent years*	*Total*
Research centers	$300,000	$700,000	—	$1,000,000
Public inebriate project	500,000	1,047,050	$452,950	2,000,000

State Hospitals

We recommend the office report to the fiscal committees prior to the budget hearings on (a) its decision regarding the continuation of the Camarillo program, and (b) the level of services to be purchased by the proposed appropriation for state hospitals and whether that level will satisfy existing service needs.

Last year the office indicated it planned to reduce inpatient services for alcoholics at Camarillo and Metropolitan State Hospitals. The reason for this proposed reduction was the high cost of such services compared with community-based programs. During budget hearings the Legislature rejected the office's plan for an immediate termination of the Metropolitan program. Instead, the Legislature directed that the Metropolitan program be phased-out on a gradual basis during 1976–77 to assure a smooth transition to community programs by June 30, 1977.

At the same time, the Legislature directed the Office of Alcoholism to submit a report by January 1, 1977 on (1) a plan regarding the future use or replacement of alcoholism programs at the two state hospitals, and (2) the monitoring procedures for state hospital patients with primary diagnosis of alcoholism who are not being treated in hospital alcoholism programs. At the time of this writing, these reports had not been submitted to the Legislature.

In September 1976, the office stated that the Metropolitan phase-out was not progressing according to schedule. Instead, counties were using their state hospital dollars and patient days at too fast a rate. This problem stemmed from (1) lack of careful admissions screening by the county programs and hospitals, (2) failure by the office to monitor patient-day utilization until the end of the first quarter of the fiscal year, and (3) increases in patient-day cost which were due in part to over-utilization of more expensive hospital treatment services. The office has taken steps to reduce the monthly utilization of patient days. Nevertheless, funds budgeted for hospital services for fiscal year 1976–77 will probably be insufficient and additional funds may need to be redirected from other programs.

The budget for fiscal year 1977–78 proposes a General Fund expenditure of $1,903,900 for state hospitals. Of that amount, $1,231,570 is to continue the program at Camarillo and $672,330 is to develop additional community facilities to replace the Metropolitan program. The budget also states that the office will continue planning to phase-out the remaining alcoholism program at Camarillo. The Legislature has already requested the office to report on such plans and has given it almost a year to do so. We therefore recommend the office report to the fiscal committees during budget hearings on its decision for continuing the Camarillo program. In addition, in order to avoid a possible deficit during the budget year, we recommend the office work with the Department of Health and report to the fiscal committees prior to the budget hearings on the level of hospital services to be purchased by the proposed appropriation.

Alcohol Traffic Safety Project

We recommend the office submit to the Joint Legislative Budget Committee by November 1, 1977 the following information regarding a statewide program for treatment of drunk-driving offenders: (a) its plan for statewide implementation including ongoing costs of administering the program, and (b) its evaluation of the four-county demonstration project.

Chapter 1133, Statutes of 1975, established a four-county demonstration project which permits drunk-driving offenders convicted for the first or subsequent offense to retain their driver's licenses if they participate in a treatment program for problem drinking for at least one year. The project began January 1, 1976 and is scheduled for statewide implementation by January 1, 1978.

Chapter 1133 also appropriated $30,000 to the office for the period from January 1, 1976 through June 30, 1977 for project staff. The cost of individual county programs will be funded by user fees. However, office administrative costs have far exceeded the $30,000 appropriation. In fiscal year 1976–77, the office estimates it will spend an additional $50,000 for the project. The Governor's Budget proposes an expenditure of $120,776, all funds, for the following purposes (1) $35,526 for salary and staff benefits and operating expenses to continue 1.5 positions to monitor the program, and (2) $85,250 for consultant expenses to assist in evaluating the project and certifying approximately 150 drunk-driving programs. The budget states that $38,250 will be reimbursed from certification fees for a net General Fund expense of $82,526.

Both the Office of Alcoholism and the Department of Motor Vehicles are currently designing evaluations of the four-county demonstration project. The office is also developing a plan for expanding the program to all counties. We believe such information should be available for review by the Legislature prior to statewide implementation. We therefore recommend the office submit an implementation plan and its evaluation of the demonstration project to the Joint Legislative Budget Committee by November 1, 1977. Because of the program's escalating cost, we further recommend that such a plan include an estimate of annual ongoing cost

OFFICE OF ALCOHOLISM—Continued

to the General Fund for program administration.

Alcohol Prevention Demonstration Project

We recommend the Office of Alcoholism submit to the fiscal committees prior to budget hearings a final plan for an alcohol prevention project and an evaluation design which includes identification of estimated project impact, time schedule of evaluation activities, description of evaluation measures and a component for evaluating the impact of school alcohol education efforts.

Last year $813,845 was appropriated from the General Fund to begin an alcohol prevention demonstration project. The stated goal of the project is "to prevent individuals from developing drinking behavior that is detrimental to their health, or causes family, social or economic problems, or creates a financial burden upon the government." Three communities will be selected for the following purposes: (1) target of a media broadcast effort only, (b) target of a combined media, neighborhood and school contact effort, and (c) control group. The office estimates the project will run for a minimum of three years and indicates it is currently developing one-year contracts with demonstration counties, a media consultant and an evaluation consultant.

The Governor's Budget proposes a General Fund expenditure of $854,837 to continue the project during fiscal year 1977–78. The budget also states that funds currently administered by the Department of Education through an interagency agreement with the Office of Alcoholism will be redirected to concentrate on school education aspects of prevention.

The Legislature has directed our office to report on the office's plans for evaluation of the project in the 1977–78 Budget Analysis. At the time of this writing, demonstration counties had not been selected and the evaluation design had not been finalized. As a result, our analysis is based on a review of the office's evaluation request for proposal and a proposal by the selected evaluation consultant.

Before a final evaluation design can be prepared, we believe the office should develop a project plan which identifies a schedule for project implementation and completion and an estimate of the total cost of the project. We also believe the office's preliminary evaluation plan should include the following important elements:

1. An identification of the projected level of change in information, attitudes, behavior and alcohol-related problems which the project is expected to achieve. Until this is done, the office will have no basis on which to assess the success or failure of the project.

2. A time schedule of evaluation activities including collection and analysis of data, and preparation of preliminary and final reports. Periodic progress reports should be scheduled to assure that the Legislature is kept apprised of the progress of the project.

3. A description of indicators to be used in measuring changes in the target communities and a discussion of the appropriateness and reliability of such indicators.

4. A component for measuring the effectiveness of school alcohol edu-

cation efforts in changing drinking attitudes and behavior of students in project counties. During fiscal year 1974–75 through 1976–77, the office will have spent approximately $272,000 from the General Fund to contract with the Department of Education to provide alcohol education services to school districts. Yet neither the office nor the Department of Education has evaluated the impact of such programs.

We recommend the office submit to the fiscal committees prior to the budget hearings a final plan and evaluation design for the prevention project which includes these components.

Future of the Office of Alcoholism

Chapter 1128, Statutes of 1975, states that it is the intent of the Legislature that the state alcoholism program be part of a comprehensive state health program. We do not believe the state alcoholism program should continue indefinitely in a separate Office of Alcoholism with separate funding allocations, program review and certification procedures, eligibility determinations, fee schedules, and budgeting and reporting requirements. Such a situation will merely perpetuate fragmentation of state health services. The state alcoholism program should be transferred to the Department of Health as soon as that department can assume these additional responsibilities.

Health and Welfare Agency

SPECIAL ASSISTANCE FOR CHILDREN'S PROGRAMS

Item 240 from the General Fund — Budget p. 578

Requested 1977–78	$4,757,280
Estimated 1976–77	1,488,000
Actual 1975–76	—
Requested increase $3,269,280	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes a General Fund appropriation of $4,757,280 for the 1977–78 fiscal year which is $3,269,280 more than the General Fund expenditures for the current fiscal year.

Last year the Budget Act appropriated $4,488,000 from the General Fund for child care services (excluding funds in the Department of Education's budget). However, the availability of additional federal social service funds for child care from PL 94-601 (HR 12455) released $3 million of the $4,488,000 appropriation for other purposes. This $3 million was transferred to the Department of Education's child development program to be expended as follows: (1) $1 million for fiscal year 1976–77 (by executive order), and (2) $2 million for fiscal year 1977–78 (under the provisions

SPECIAL ASSISTANCE FOR CHILDREN'S PROGRAMS—Continued

of Section 10.30 of the Budget Bill). The total program expenditure for child care services estimated to be expended during fiscal year 1976–77 remained at $4,488,000.

The Budget Bill proposes that funds available for child care programs for fiscal year 1977–78 be allocated by the Department of Finance. These funds will be discussed separately under Item 292 for Child Care programs.

DEPARTMENT OF HEALTH

General Summary

Pursuant to the Governor's Reorganization Plan No. 1 of 1970, and subsequent legislation (Chapter 1593, Statutes of 1971, and Chapter 1002, Statutes of 1973) the Department of Health was created on July 1, 1973, by combining the former Departments of Mental Hygiene, Public Health, and Health Care Services, together with various functions of the Departments of Rehabilitation and Social Welfare.

In its present configuration, the Department of Health administers 19 programs or specially budgeted items which are shown in Table 1 with their estimated total funding for the 1976–77 and 1977–78 fiscal years.

Table 1

Programs and Special Items Administered by the Department of Health

	1976–77	*1977–78*
I. Preventive Medical Services Program	$27,289,088	$29,018,785
II. Environmental Health Services Program	14,602,513	14,774,217
III. Occupational Health Program	4,323,351	4,404,443
IV. Maternal and Child Health Program	63,479,393	65,399,010
V. Child Health and Disability Prevention Program	9,267,588	14,185,742
VI. Health Planning Program	2,305,738	2,583,102
VII. Mental Disabilities Program	343,135,246	376,446,374
VIII. Developmental Disabilities Program	262,089,611	292,899,818
IX. Social Services Program	374,467,167	378,588,347
X. Substance Abuse Program	26,642,250	28,862,113
XI. Medical Assistance Program	2,479,811,182	2,735,678,162
XII. Alternative Health Systems Program	81,241,046	89,636,880
XIII. Licensing and Certification Program	24,970,562	22,735,500
XIV. Disability Evaluation Program	36,339,132	37,947,779
XV. Administration:		
Distributed	(31,659,529)	(34,187,876)
Undistributed	1,895,886	2,621,306
XVI. Legislative Mandates	546,498	579,288
XVII. Special Projects	40,158,116	47,301,739
XVIII. Provider Rate Increases	—	90,577,949
XIX. Hospital Cost Containment Lawsuit	—	88,750,000
Intradepartmental transfers	35,299,835	28,893,517
Totals, Programs	$3,827,864,202	$4,351,884,071

The Governor's Budget proposes the direct appropriation and expenditures of $2,171,802,090 from various state funds to support the Department of Health in the 1977–78 fiscal year. Federal, county and other funds in the amount of $2,180,081,981 are also proposed to be expended by the department for a total expenditure in 1977–78 of $4,531,884,071.

Table 2 lists the Budget Bill items which support the department together with the Analysis page on which they are discussed.

Table 2

Department of Health Budget Items

Item No.	*Analysis Page*	*Description*	*Amount*	*Fund*
241	000	Departmental Support	$64,635,102	General
242	000	Departmental Support	293,772	State Transportation
243	000	Departmental Support	232,371	California Health Facilities Commission
244	000	Mentally Ill-Judicially Committed	28,503,106	General
245	000	Local Mental Health Services	332,978,655	General
246	000	Drug Abuse Programs	11,528,872	General
247	000	Developmental Disabilities Program	275,591,053	General
248	000	Medi-Cal—Medical Care and Assistance	1,088,922,400	General
249	000	Medi-Cal—Fiscal Intermediary	24,399,100	General
250	000	Medi-Cal—County Administration	90,989,800	General
251	000	Medi-Cal—Hospital Lawsuit	56,800,000	General
252	000	Special Social Services	73,856,012	General
253	000	Rate Increases	52,611,649	General
254	000	Local Health Services	33,586,442	General
255	000	Crippled Children's Services	23,588,220	General
256	000	Legislative Mandates	579,288	General
		Subtotal	$2,159,095,842	Various
		Other State Funds	12,706,248	Various
		Total State Expenditures	$2,171,802,090	

Department of Health
DEPARTMENTAL SUPPORT

Item 241 from the General Fund — Budget p. 581

Requested 1977–78	$65,488,915
Estimated 1976–77	51,532,992
Actual 1975–76	42,684,730
Requested increase $13,955,923 (27.1 percent)	
Total recommended reduction	$528,129

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
241	Departmental Support	General	$64,635,102
—	Available from other appropriations	—	853,813
			$65,488,915

DEPARTMENTAL SUPPORT—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Position Overbudgeting. Recommend Department of Finance recalculate cost of all proposed new positions and present revised estimates to fiscal committees prior to budget hearings.	471
2. Positions for Planning and Review. Withhold recommendation on $347,915 for 13 positions for planning and program review.	472
3. Fiscal Auditor Positions. Recommend department report to fiscal committees prior to budget hearings on how audit plan will deal with problems of internal financial operations and plan for coordinating with health auditing responsibilities of other departments.	472
4. *Civil Rights Office. Reduce by $59,007.* Recommend reduction of $59,007 for two positions for Civil Rights Office.	473
5. *Council on Food and Nutrition. Reduce by $37,328.* Recommend deletion of one nutritionist position for Council on Food and Nutrition.	474
6. Occupational Health.	474
(a) Recommend Department of Health report to fiscal committees by April 1, 1977 on implementation of Chapter 1067, Statutes of 1976.	
(b) Recommend Budget Bill language requiring that 25 percent of health inspection staff time be devoted to self-initiated inspections.	
(c) Recommend Department of Health report to fiscal committees by April 1, 1977 on implementation, effectiveness, and projected future effectiveness of self-initiated inspections.	
(d) Recommend supplemental report language requiring that Division of Industrial Safety and Department of Health establish procedure for screening requests for health inspections and eliminating least important ones.	
7. Lead Poisoning Project. Withhold recommendation on $677,669 for first year costs of two-year research project on lead in blood.	476
8. Department of Health Administrative Procedures. Recommend implementation of administrative reform measures which will correct outlined problems.	477
9. Prospective Rate Setting Project. Withhold recommendation on proposed project pending legislative review of rate-setting proposals submitted by Department of Health and California Health Facilities Commission.	479
10. *Child Health Disability Prevention Program (discussed in our analysis of Item 254). Reduce by $322,000.* Recommend Item 241 be reduced by $322,000 and that federal	480

funds be reduced by $378,006 by deleting 25.6 of 38.6 proposed new positions.

11. *Internal Security Unit (discussed in our analysis, Item 248, of Medi-Cal program). Reduce by $70,020.* Recommend deletion of 3.5 positions in Internal Security Unit for budget year savings of $93,361 ($70,020 General Fund). 480
12. *Fiscal Intermediary Section (discussed in our analysis, Item 249, of Medi-Cal program). Reduce by $39,774.* Recommend deletion of three positions for current year savings of $48,115 ($25,982 General Fund) and budget year savings of $72,731 ($39,774 General Fund). 480

ANALYSIS AND RECOMMENDATIONS

Support for the administrative functions of the Department of Health is provided by funds appropriated in Item 241 of the Budget Bill. In following the program budget format, the majority of the dollars expended through this item are distributed to other programs. We have discussed these funds under the items that provide the major support for each program. With the exception of the specific recommended reductions made in Item 241, we withhold further recommendations on the item pending legislative actions taken on Items 242 through 255 since they will have an effect on administrative support.

The Governor's Budget proposes a General Fund appropriation of $65,488,915 to support the administration functions of the Department of Health which is an increase of $13,955,923, or 27.1 percent, above estimated current year expenditures. Included in this total General Fund expenditure are $64,635,102 in Item 241 of the Budget Bill as well as $853,813 from other legislative appropriations. The major reason for the increase in this item is the transfer to the support item of funds for state positions presently budgeted in local assistance items. The total amount transferred in the budget year is $7,031,122.

Because the funds appropriated by this item are prorated to programs supported by other items in the Budget Bill, any changes made in such programs will be reflected as an adjustment to this item. The discussion and recommendations which follow pertain to programs receiving their major support from this item.

Position Overbudgeting

We recommend that the Department of Finance recalculate the cost of all proposed new positions in Item 241 in accordance with the provisions of the State Administrative Manual and present revised estimates to the fiscal committees prior to budget hearings in order to make appropriate General Fund reductions in that item.

Item 241 of the Budget Bill proposes to establish a number of new positions in the budget year or to continue positions which were administratively established in the current year. According to the Department of Health staff, many of these positions are budgeted at mid-range salary levels. We have calculated the budgeted amounts for several of these positions and have found this to be true. However, State Administrative Manual Section 6112(c) (3) requires proposed new positions to be budget-

DEPARTMENTAL SUPPORT—Continued

ed at the minimum of the salary range. As a result, we believe the department's current procedures result in overbudgeting. We therefore recommend that the Department of Finance recalculate the cost of all new positions in accordance with proper statewide budgeting practices and present these revised estimates to the fiscal committees prior to budget hearings. We believe substantial General Fund savings would result.

Director's Office

Positions for Planning and Program Review

We withhold recommendation on $347,915 for 13 positions for planning and program review.

In fiscal year 1975–76, the Legislature approved 15 positions requested by the department to establish an Internal Audit Unit but limited these positions to a two-year period ending June 30, 1977. The purpose of the unit was to provide an independent appraisal unit reporting to the director's office whose function would include program evaluation, management audits, and the coordination of evaluations and reviews performed by external agencies.

The Governor's Budget proposes a General Fund appropriation of $392,-726 to continue these positions. Approximately 60 percent of this amount will be reimbursed by federal funds for the cost of administering the state health program. The budget indicates that five of these positions will be located in the department's Office of Program Review, five positions will be located in the Planning and Evaluation Unit and two auditor positions will be located in the Budget Office.

The department has recently developed a proposal to incorporate all but the two auditor positions in a new Office of Planning and Program Analysis. This proposed office would also include positions currently located in the department's Administrative Services Division. Although we understand the new office has been functionally implemented, at the time of this writing the proposal has not been finalized by the department, approved by the Department of Finance, or reflected in the Governor's Budget. We withhold recommendation on $347,915 for the 13 positions until the department has identified the following: (a) how these positions will be used in a reorganized unit and (b) the new unit's responsibilities in organizing and coordinating the planning and evaluation functions currently performed by existing programs within the Department of Health.

Fiscal Auditor Positions

We recommend that the department report to the fiscal committees prior to budget hearings on how the department's audit plan will deal with identified problems of internal financial operations and the department's plans for coordinating its internal audits with the health auditing responsibilities of other departments.

The budget proposes a General Fund appropriation of $130,042 for five positions for the department's Budget Office. This amount is proposed to be expended as follows: (a) $85,231 for three new positions, and (b) $44,-

811 for two positions which were originally assigned to the department's Internal Audit Unit and which the budget proposes to continue in the Budget Office. Approximately 60 percent of this amount will be reimbursed by federal funds for the cost of administering the state health program.

The purpose of these five positions is to provide a management and fiscal auditing capability for the department's internal operations including state hospitals. The department's 1977–78 audit plan indicates approximately 20 audit priorities. The Department of Benefit Payments is currently authorized 129 positions to conduct health audits. These audits are limited to service providers in Medi-Cal, Short-Doyle, and other health programs which are funded through the Department of Health. In addition, the Department of Finance also conducts some audits of Department of Health programs.

We believe no additional auditor positions should be established in the Department of Health until the department has identified major fiscal problems and how the current audit plan relates to them. We also believe that the department should coordinate any internal audit activities with the auditing activities of the Departments of Finance and Benefit Payments. We therefore recommend that the department report to the fiscal committees prior to budget hearings on how the department's audit plan will deal with identified problems of internal financial operations and the department's plan for coordinating its audits with the health auditing responsibilities of other state departments.

Civil Rights Office

We recommend a reduction of $59,007 for two positions for the Civil Rights Office.

The budget proposes a General Fund appropriation of $59,007 to continue a staff services management I position administratively established in the current year and to establish a new drug abuse consultant position. Funds for these positions are to be redirected from salary savings of other programs in the department. These positions would coordinate departmental affirmative action programs for the disabled and for rehabilitated ex-offenders and drug addicts. This proposed expansion would increase the Civil Rights Office's budget to $494,687 for the budget year and would increase the office's staff to 17 positions. This is comparable to the staff level of some of our medium-size state health programs. In addition to the office's staff, each major administrative unit of the department and each state hospital has a full-time affirmative action coordinator responsible for implementing the Affirmative Action Plan in their organization. There are currently 18 such coordinators.

We believe that the current staffing of the department's Civil Rights Office is sufficient to satisfy the department's affirmative action needs. If the department wishes to establish additional affirmative action priorities, we believe they should be accomplished within existing staff and funding levels. We therefore recommend that these two positions be deleted for a salary and staff benefits savings of $59,007.

DEPARTMENTAL SUPPORT—Continued

Preventive Medical Services Program

Council on Food and Nutrition

We recommend a reduction of $37,328 for one nutritionist position for the Council on Food and Nutrition.

Chapter 355, Statutes of 1976, created an Interdepartmental Council on Food and Nutrition in the Department of Health. This council is comprised of representatives of several state agencies which currently have responsibilities relating to food and nutrition. The council is required to determine the annual state and federal expenditures on food and nutrition programs in California and their effectiveness and develop a plan and recommendations. This plan is to be submitted to the Governor and Legislature by January 1, 1979.

The budget proposes the addition of one nutritionist position for the Chronic Disease Section to provide staff support for the council. Chapter 355 states that "the council may request any state department to lend personnel to assist it in carrying out its duties . . ." In addition, the Department of Health analysis of proposed legislation to establish the council estimated there would be no added cost. As a result, we believe that any staff support for the council should come from the participating departments. We therefore recommend deletion of the nutritionist position for a salary and staff benefits savings of $37,328.

Occupational Health Program

The budget proposes an expenditure of $4,404,443 in the 1977–78 fiscal year for the occupational health program of the department. This amount is $81,092, or 1.9 percent, more than is estimated to be expended during the current fiscal year. All the funds supporting this program are shown as reimbursements from the Department of Industrial Relations, which has the major responsibility for administering the California Occupational Safety and Health program (Cal/OSHA).

Cal/OSHA

The health component of California's Occupational Safety and Health program (Cal/OSHA) is administered by the Department of Health and funded through an interagency agreement with the Division of Industrial Safety in the Department of Industrial Relations. The interagency agreement authorizes expenditures of up to $3,364,616 in the current year. Funds are 50 percent state and 50 percent federal. There is also a contract for $925,000 for administration of Chapter 1067, Statutes of 1976, the Occupational Carcinogens Control Act of 1976.

Within the Department of Health, the Occupational Health Branch inspects workplaces, develops standards, trains Division of Industrial Safety inspectors to recognize health hazards, and provides information and consultation services to employers and employees. The Air and Industrial Hygiene and Southern California Laboratories conduct chemical analyses in support of Occupational Health Branch inspections.

The Occupational Carcinogens Control Act of 1976

We recommend that the Department of Health report to the fiscal committees by April 1, 1977 on the implementation of Chapter 1067, Statutes of 1976.

A new program was added in the current year to the health component of Cal/OSHA by Chapter 1067, Statutes of 1976, (SB 1678) "The Occupational Carcinogens Control Act of 1976." This act requires (1) employers to report potentially hazardous uses of carcinogens (cancer causing substances), (2) the Department of Health to establish priorities for inspections and inspect workplaces where carcinogens are used, and to provide consultation services to employers and employees, (3) inspected employers to pay fees, and (4) the Department of Health to notify users of carcinogens of the requirements of this act. Through an interagency agreement with the Division of Industrial Safety, the Department of Health will receive $1,350,000 during the 1977–78 fiscal year for 46 positions. The program will probably qualify for federal funding.

We recommend that the Department of Health report to the fiscal committees by April 1, 1977 on the implementation of this new program. We are particularly concerned with the timely hiring of new staff, the initial use of the new staff, the timely application for federal funds, and the fee schedule that is to be established for inspected employers.

Program Reforms

We recommend Budget Bill language requiring that 25 percent of health inspection staff time be devoted to self-initiated inspections.

We recommend that the Department of Health report to the fiscal committees by April 1, 1977 on the implementation, effectiveness, and projected future effectiveness of staff redirections and self-initiated inspections.

As a result of legislative and Department of Health actions, there are a number of reforms being made in the health component of Cal/OSHA which should significantly increase program effectiveness. The two most important have to do with staff redirections and self-initiated inspections.

Staff Redirections

During budget hearings on the Budget Act of 1976, the Department of Health announced that the number of health inspectors in the Occupational Health Branch was being increased from 27 to 46 positions, an increase of 19. This was to be accomplished by redirecting two positions from the State Fire Marshal, six positions from the Division of Industrial Safety, seven positions from other units in the Occupational Health Branch, and four chemist positions from the Cal/OSHA laboratories. The redirection of the chemist positions was done to correct an overstaffing problem in the laboratories. As of the preparation of this analysis, not all of the intended redirections had taken place.

Self-Initiated Inspections

Budget language in the Budget Act of 1976 requires that 25 percent of health inspection staff time be devoted to self-initiated inspections. This means that health personnel will be using their expertise and information

DEPARTMENTAL SUPPORT—Continued

systems to identify workplaces where the most serious health hazards are to be found and then allocate 25 percent of their inspection staff time to inspecting these workplaces. This kind of priority setting is essential if the health inspection program is to be effective, and we recommend that the 1977 Budget Bill continue the language requiring self-initiated inspections. As of the writing of this report, only about 10 percent of staff time was being spent on self-initiated inspections.

We also recommend that the Department of Health report to the fiscal committees by April 1, 1977 on the implementation, effectiveness, and projected future effectiveness of both staff redirections and self-initiated inspections.

Division of Industrial Safety Requests for Inspections

We recommend that adoption of supplemental report language requiring the Division of Industrial Safety and the Department of Health to establish a procedure for screening requests for health inspections and to eliminate the least important ones.

While 25 percent of inspection staff time is to be dedicated to self-initiated inspections, 75 percent will be dedicated to responding to requests for inspections made by the Division of Industrial Safety. These requests are made as a result of worker complaints and conditions identified by safety inspectors during safety inspections. In many instances the health hazards to be investigated as a result of these requests are not serious enough to justify the expenditure of the time and funds involved in a health inspection. We therefore recommend that a mechanism for screening requests and eliminating the least important requests be established.

Maternal and Child Health Program

Lead Poisoning Project

We withhold recommendation on $677,669 for first year costs of a two-year research project on lead in blood.

The budget proposes $677,669 from the General Fund to establish 15 positions in the department's Health Protection Division. The budget states these positions will be used for the first year of a two-year research project to determine sources and effects of lead in blood. The department proposes to screen two groups of individuals. The first group includes 12,000 developmentally and mentally disabled individuals in nine state hospitals. The second group includes 75,000 high-risk children in 10 counties.

According to the budget text, the purpose of the project is to define the magnitude of the problem and steps necessary to eradicate lead poisoning. However, the department's proposal states that the purpose is to prevent excessive lead burden and its after-effects in high-risk individuals and discusses the need for immediate medical and environmental intervention and follow-up. Such intervention and followup during the two-year project could result in a substantial caseload increase for a number of departmental and local health programs as well as substantial cost increase to the General Fund.

At the time of the preparation of this analysis, the department was unable to provide information regarding specific duties and estimated workload for the proposed positions. We withhold recommendation for funds for this project until the department can clarify the purpose of the project and can provide additional position justifications.

Department of Health Administrative Procedures

We recommend the immediate implementation of the administrative reform measures which will correct the problems outlined in the following three sections.

The Department of Health is a large organization which has often been criticized for not responding in a timely manner to changes in state legislation, federal laws and regulations. It has often delayed necessary decisions due to the excessive length of the administrative process. The situation is critical; particularly in the Health Protection Division. The processes which are holding up operations are (1) the regulations development and adoption process, (2) the budget revision/hiring process, and (3) the contract preparation and approval process. Reform of the contract process has been underway for two years with marked success.

A. Regulation Adoption Process

Regulations are used to interpret, implement, make specific, or otherwise carry out the provisions of a statute. They may also be needed as a result of federal regulations, state legislation, court orders, and the administrative orders of state officials. Regulations are not required for programs that are carried out through contracts, because requirements can be put into the contracts, which can be terminated if those requirements are not met.

The regulation adoption process includes: (1) programs which write regulations, (2) the Legal Affairs and Regulations Unit in the Director's Office, (3) the Budget Section, (4) the Department of Finance, (5) deputy directors and above and other interested parties and agencies, (6) a 30-day public notice period, (7) public hearings, (8) post hearing changes and reviews, (9) filing with the Secretary of State, and (10) a 30-day post filing waiting period.

Normal regulations become effective after this process has been completed. Emergency regulations must complete the same process, but become effective before the public notice period.

Authorization to adopt emergency regulations is granted by the Deputy Director for Legal Affairs and Regulations. Generally, if the health of Californians will be adversely affected by waiting for normal regulations to become effective, authorization for emergency regulations will be granted.

Regulation Adoption Process—Problem Areas

The Department of Health has been taking an average of over one year to adopt regulations, with the result that new programs are delayed and existing programs cannot adapt to changing situations.

Of the 120 new statutes affecting the Department of Health in calendar

DEPARTMENTAL SUPPORT—Continued

year 1975, about one-half required regulations. In addition it is necessary to change a number of existing regulations, and adopt regulations as a result of new federal regulations, court orders, and administrative orders.

In our review of the regulation adoption process we have concluded that a series of actions would improve the process. One person should have responsibility for every step in the regulations process. The logical position for that responsibility would be the Deputy Director for Legal Affairs and Regulations. There should then be a specific schedule or time table established as to when each step of the process should be completed. It is important that the process be monitored at all times. Work on the regulations should start at the time a statute is chaptered, not after the effective date, as is often the case.

Legislation Not Needing Regulations

There are times when legislation mandates the adoption of regulations when they are not needed because the program will be carried out by contract with a local public or nonprofit agency. The department should advise the Legislature of this fact while it is monitoring the progress of proposed legislation through the committee process. A program that does not need the regulation process can be implemented in the time span envisioned by the legislature.

B. Budget Revision/Hiring Process

A budget revision is a document authorizing a revision of the Budget Act which must be approved by the Department of Finance.

New legislation may appropriate funds to establish a new program, or expand an existing one, but these funds cannot be spent until a budget revision has been approved. Similarly, new federal funds, redirection of funds already appropriated by the Budget Act, or new or redirected funds from any source cannot be spent without an approved budget revision.

A budget revision proposes and justifies a budget for the use of new or redirected funds. When the proposed budget calls for new state staff, personnel documents must also be approved before staff can be hired.

Budget Revision/Hiring Process—Problem Area

The Department of Health's budget revision/hiring process has been taking anywhere from a week to over a year to be completed.

As in adoption of regulations there should be one position responsible for each step in the budget revision/hiring process. The logical position is the Chief of the Budget Section. He also should adopt a specific time schedule for the completion of the process and monitor it.

C. Contract Approval Process

This is the third year we have reported on the Department of Health contract approval process. The process includes the 37 programs which write contracts, the Department of Health, Administrative Division, and the Departments of Finance and General Services.

Delayed contracts result in delayed programs because a contractor cannot be reimbursed for services without a contract. Delayed contracts also result in the poor management of funds. For example, if a contract is delayed six months, the contractor will receive no funds for the first six months of the fiscal year and the full 12 months' funds in the last six months of the fiscal year.

Contract Approval Process—Improvement Shown

In 1974–75, most contracts were not approved until six months to a year after their July 1 effective dates, and 20 percent were sent back from the Departments of Finance or General Services to be redone. In 1975–76 many contracts were approved within two months of July 1, and 7 percent had to be done over. In 1976–77 many contracts were approved by July 1, and 7 percent had to be done over. Reforms have been sustained and impressive.

Further Reforms Needed

Although progress has been made there is a need for continued improvement. Here again one person should have the responsibility of seeing that every step of the contract process is followed according to a timetable that would insure that contracts are approved by the start of a fiscal year, if possible. There should be specific return deadlines when sending contracts out for the signature of contractors.

Finally, contracts should be product oriented. A product oriented contract reimburses for units of staff. A contract which is not product oriented reimburses for staff with no guarantee that the staff will provide a sufficient amount of service.

Prospective Rate Setting Project

We withhold recommendation on the proposed project pending legislative review of the rate-setting proposals submitted by both the Department of Health and the California Health Facilities Commission.

The budget proposes the creation of a Hospital Rate Setting Project within the Department of Health. A total of $338,231 ($142,017 state and $196,214 federal funds) is proposed to fund the project in the 1977–78 fiscal year. The project requires 12 positions.

During the past year, both the department and the California Health Facilities Commission (CHFC) submitted proposals to the federal Social Security Administration (SSA) for development of a method of setting prospective hospital rates. The Department of Health proposal was supported by the administration and the department was awarded a contract by the SSA. The total amount of the contract was not to exceed $768,068.

Pursuant to Section 28 of the Budget Act of 1976, the Director of Finance requested a waiver of the 30-day waiting period in order to allow the department to commence with the expenditure of $379,837 in federal funds for the current year. The Chairman of the Joint Legislative Budget Committee denied the request on the basis that the long-term policy implications of a rate setting project are of sufficient importance to warrant full legislative review prior to the commencement of work.

Furthermore, there is a question as to whether the Department of Health is the appropriate state agency to develop such a system. This concern is accentuated by the fact that the establishment of this project

DEPARTMENTAL SUPPORT—Continued

could be a significant step towards the implementation of a prospective rate setting system for all hospitals, both public and private.

We believe that the Legislature should consider both prospective rate setting proposals and participate in the decision as to which one should be selected. It is our understanding that the commission proposal may be superior. The long-range policy of mandatory prospective rate setting for all hospitals is of such a major nature that the Legislature should participate in the decision process from the beginning.

Recommended Reductions Discussed in Other Items of this Analysis

The following is a summary of recommended budget reductions to be made in Item 241 for programs which receive the majority of their funding in other items of the Budget Bill. We have discussed the programs and the reasons for these three recommendations in our analysis of the respective items.

1. *Child Health Disability Prevention Program (discussed in our analysis of Item 254). Reduce by $322,000.* Recommend Item 241 be reduced by $322,000 and that federal funds be reduced by $378,006 by reducing 25.6 of 38.6 proposed new positions.

2. *Internal Security Unit (discussed in our analysis, Item 248, of Medi-Cal program). Reduce by $70,020.* Recommend deletion of 3.5 positions in the Internal Security Unit for budget year savings of $93,361 ($70,020 General Fund).

3. *Fiscal Intermediary Section (discussed in our analysis, Item 249, of Medi-Cal program). Reduce by $39,774.* Recommend deletion of three positions for current year savings of $48,115 ($25,982 General Fund) and budget year savings of $72,731 ($39,774 General Fund).

Department of Health

FORENSIC ALCOHOL ANALYSIS AND MEDICAL EFFECTS OF AIR POLLUTION

Item 242 from the Motor Vehicle Account, State Transportation Fund — Budget p. 585

Requested 1977–78	$293,772
Estimated 1976–77	280,540
Actual 1975–76	263,386
Requested increase $13,232 (4.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Forensic Alcohol Analysis Regulation

In accordance with Sections 436.5–436.63 of the Health and Safety Code, the Laboratory Services Branch of the Department of Health regulates, monitors, inspects, evaluates, advises and licenses laboratories and personnel that do testing for concentrations of ethyl alcohol in the blood of people involved in traffic accidents or violations. There are presently about 97 licensed laboratories which employ over 500 people. Four professional, two laboratory assistant and two clerical positions are assigned to this program.

Supplemental Language to Item 283, Budget Act of 1976, required the Department of Health to survey laboratory charges for blood alcohol testing and report to the Legislature in January, 1977.

Medical Effects of Air Pollution

In accordance with Section 425 of the Health and Safety Code, the Laboratory Services Branch is also responsible for determining the medical effects of air pollution and recommending air quality standards to the Air Resources Board. Three professional and one clerical position are assigned to this program.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item proposes $293,772 from the Motor Vehicle Account in the State Transportation Fund, a $13,232, or 4.7 percent, increase over the current year.

Health and Welfare Agency

DEPARTMENT OF HEALTH
(California Health Facilities Commission Fund)

Item 243 from the California Health Facilities Commission Fund — Budget p. 609

Requested 1977–78	$232,371
Estimated 1976–77	None
Total recommended reduction	$232,371

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Proposed Transfer of positions. Reduce Item 243 by $232,371 and transfer like amount to Item 282.* Recommend retention of seven positions in commission by transferring this appropriation to Item 282 for support of the California Health Facilities Commission. 481

ANALYSIS AND RECOMMENDATIONS

We recommend the $232,371 proposed in this item be transferred to Item 282, for support of the California Health Facilities Commission.

The budget proposes an appropriation of $232,371 from the Health Care

DEPARTMENT OF HEALTH—Continued

Facilities Commission Fund for the support of seven positions and operating expenses which are proposed to be transferred from the California Health Care Facilities Commission (Item 243) to the Department of Health (Item 241), effective January 1, 1978. The positions administer the uniform accounting and reporting system for hospitals. The budget states the administration will introduce legislation to transfer the commission's function to the Department of Health.

We recommend that the seven positions not be transferred to the Department of Health. This issue is discussed more completely under Item 282, California Health Facilities Commission.

Health and Welfare Agency

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION

Items 244–245 and 247 from the General Fund — Budget p. 593

Requested 1977-78	$637,072,814
Estimated 1976-77	567,029,052
Actual 1975-76	502,134,963
Requested increase $70,043,762 (12.4 percent)	
Total recommended reduction	Pending

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
244	Mentally Ill-Judicially Committed	General	$28,503,106
245	Community Mental Health	General	332,978,655
247	Developmental Disabilities Program	General	275,591,053
			$637,072,814

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. New Legislation Compliance. Recommend department comply with provisions of Chapter 962, Statutes of 1976, regarding executive officers at the state hospitals.	487
2. Borrowed State Hospital Positions. Recommend department discontinue practice of borrowing positions from state hospitals.	487
3. $10 Million Mental Health Equity Proposal. Withhold recommendation pending submission to fiscal committees by April 15, 1977 of counties' plans for use of equity funds.	493
4. Alternative Reimbursement Study. Recommend report be submitted to the Joint Legislative Budget Committee by	494

November 1, 1977 on alternative reimbursement methods for mental health services.

5. Cost Reports and Final Budgets. Recommend counties comply with state law regarding submission of cost reports and final budgets. 494
6. Recommendations Not Submitted. Recommend department submit report to fiscal committees by April 15, 1977 of recommendations for mental health services to jail inmates. 495
7. Drug Programs. Recommend department submit list of discrete drug programs to fiscal committees by April 15, 1977. 495
8. Short-Doyle Medi-Cal Pilot Project. Recommend pilot project on Short-Doyle Medi-Cal consolidation include all funds expended on mental health services in Medi-Cal program. 496
9. Regional Center Priorities. Recommend the first priority of centers be to serve: (1) persons identified as appropriate for transfer from the state hospital to the community and (2) persons who would be admitted to the state hospital without intervention of the regional center. 507
10. Community Development Program. Withhold recommendation on two positions proposed for program development activities pending further review. 510

HEALTH TREATMENT DIVISION

The Health Treatment Division in the Department of Health is responsible for the administration of state hospital programs and community based programs for persons who are mentally disabled and developmentally disabled. As shown in Table 1, three major appropriation items support the programs administered by this system.

Table 1
Programs and Proposed General Fund Appropriations
Health Treatment System

Budget Item	*Program*	*Proposed Amount*
244	Judicially Committed	$28,503,106
245	Mentally Disabled	332,978,655
247	Developmentally Disabled	275,591,053
		$637,072,814

The 11 state hospitals are estimated to treat an average of 9,914 developmentally disabled and 5,698 mentally disabled persons in the current year. The Governor's Budget, page 597, contains a chart showing the actual state hospital population from the 1973–74 fiscal year through the projections for the 1977–78 fiscal year.

Background on Establishment of Staffing Standards

In 1965, the California Senate directed the former Department of Mental Hygiene to evaluate the staff needs of the state hospitals for the mentally ill and mentally retarded. The Senate requested the study after a review

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

by the California Medical Association which indicated the state hospitals' major deficiency was a lack of adequate professional staff to meet reasonable medical standards for care and treatment of patients.

The California Commission on Staffing Standards presented its report in February 1967. The commission proposed new standards for all treatment disciplines to replace the staffing ratios that had been used since 1952. The system used in the new standards was developed largely by a team of industrial engineers from an aerospace corporation. The standard was developed using direct time study and statistical work sampling. This involved measuring how long it took to perform each major type of nursing activity on patients with varying levels of illness or disability.

The department adopted in 1968 the staffing system recommended by the commission. At that time, the hospitals for the mentally disordered were budgeted at 84 percent of the new standard and the developmentally disabled (DD) hospitals at 73 percent of the new standards. The department was committed to achieving 100 percent of the standards over five years. The DD goal was achieved on schedule in 1973. The MD goal, due to expansion of local mental health programs and decline in state hospital patients, was reached in 1970.

At the start of the current fiscal year, the state hospitals were staffed at 105 percent of the 1968 staffing standards in order to achieve a delivered level of 100 percent of the 1968 standards on the wards. The 105 percent included a 3 percent factor for off-ward assignments and a 2 percent factor for vacancies.

1973 Staffing Standards Pilot Tested

In 1971, the department initiated another study of the staffing pattern in the hospitals and developed a new staffing methodology, referred to as

Table 2
Pilot Project
Comparison Between 1968 and 1973 Standards
Social Development Emphasis
Developmentally Disabled
State Hospital Programs

1968 Standards	*1973 Standards*
Control Group	Experimental Group
Fairview State Hospital	Sonoma State Hospital
189 Patients	179 Patients
Nursing Staff:	*Nursing Staff:*
131 Nursing (Registered nurse, psychiatric technician, hospital worker)	161 Nursing (Registered nurse, psychiatric technician, hospital worker)
Professional Staff:	*Professional Staff:*
1 Psychiatric Social Worker	1 Psychiatric Social Worker
3 Rehabilitation Therapists	7 Rehabilitation Therapists
2 Teachers	3 Teachers
0.5 Social Work Associate	2 Psychologists
	1 Speech Pathologist
	1 Dental Hygienist
6.5 subtotal—Professional	15 subtotal—Professional
137.5 Total Nursing and Professional Staff	176 Total Nursing and Professional Staff

the 1973 staffing standards, which would provide significantly increased treatment and rehabilitative care. The 1968 standards were designed primarily to meet the physical needs of patients and the life support services required by large numbers of infirm patients in the hospitals. The 1973 standards are program oriented and relate staffing requirements to the intensity of individually planned treatment activities.

The difference between the two standards is that the 1973 standards require more nursing staff and more professional staff. A pilot project testing the 1973 standards was conducted from July 1975 to December 1976 at Fairview, Sonoma and Camarillo State Hospitals. Table 2 shows the difference in staffing between the two standards as tested in the pilot project. The particular project below emphasized social development (i.e. cognitive and socialization skills) of the developmentally disabled. The entire pilot project involved approximately 900 MD and DD patients.

Reduction of Funds by Governor

The Legislature appropriated $10 million in Item 287.1 of the Budget Act of 1976 to "implement the 1973 staffing standards or other standards designed to provide levels of treatment and rehabilitation services to patients."

The Governor reduced the $10 million in Item 287.1 by $4 million and indicated that the remaining $6 million would be used to provide an increased level of care in state hospital programs to meet special patient needs. A Legislative Counsel's Opinion dated July 27, 1976 found the redirection of funds to be an unlawful extension of the Governor's Budget Act authority. Subsequently, the Governor chose to use the $6 million to increase staffing in the hospitals from 105 to 110 percent of the 1968 staffing standards. The $6 million was used to establish administratively 446 psychiatric technician positions in the current year.

On December 8, 1976, a Section 28 letter was submitted to the Legislature indicating that after 30 days the Department of Health was authorized to implement the 1973 staffing standards.

A pilot project testing the impact and effectiveness of the 1973 staffing standards was conducted at Fairview, Sonoma and Camarillo State Hospitals. The Section 28 letter indicated that increased staff in the projects produced significant improvements in the functioning of the developmentally disabled residents. The letter also cited the results of a Metropolitan State Hospital study that identified a need to increase the direct care staffing for programs serving the acutely mentally ill to a level approximating 100 percent of the 1973 standards in order to eliminate the growing number of violent incidents in these programs.

Accordingly, the letter indicated that the Department of Health proposed to establish 597.9 new treatment and level of care positions from current year salary savings in addition to the 446 positions funded from the $6 million in Item 287.1. In the current year, the net effect of adding the 446 positions and the 597.9 additional treatment positions was to authorize positions equivalent to at least 83 percent of the 1973 staffing standards.

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

Second Increment of 1973 Standards Proposed

For 1977–78, the Governor's Budget proposes to establish 587.5 new treatment positions at the state hospitals at a cost of $6 million General Fund. The proposed budget would increase staff at the hospitals to approximately 88 percent of the 1973 standards during the 1977–78 fiscal year. The budget also includes $14.7 million to continue the additional positions established in 1976–77. Specific proposed position changes are discussed later under the state hospital component of Items 245 and 247.

Budget narrative states that the "1973 staffing standards will be under continuous evaluation and modification of the standards will be undertaken as needed." Implementation of the 1973 standards will increase the cost of providing services to mentally disabled and the developmentally disabled patients. However, in addition to the increased cost, there should be measurable positive changes in the behavior and the levels of functioning of the developmentally disabled and the mentally disabled. It is imperative that these changes and improvements be documented and verified before the 1973 standards are fully implemented. Therefore, we will be monitoring the department's implementation of the 1973 standards. We will also discuss with the department what procedure should be established to document the changes in the patients' functioning as a result of the additional staff.

Forty-six Reclassifications Proposed

The 1973 standards provide greater flexibility to staff the state hospitals with positions other than psychiatric technicians. The standards permit a maximum of 25 percent of the level of care positions to be reclassified to provide a disciplinary mix that meets program needs. Positions that are considered interchangeable and able to be reclassified include audiologists, dental hygienists, physical therapists, psychiatric technicians, psychologists, rehabilitation therapists, social workers, registered nurses, speech pathologists, and teachers.

We recommend approval of the proposal to reclassify forty-six psychiatric technician positions to various other classifications in the current year which are to be continued in the budget year. Table 3 shows the distribution of the proposed reclassifications by type of position.

Table 3
State Hospital Programs
Proposed Position Reclassifications
1977–78 Fiscal Year

Existing Positions	*Proposed Reclassification*
11 Psychiatric technicians	11 Audiologists
10 Psychiatric technicians	10 Physical Therapists
16 Psychiatric technicians	16 Dental Hygienists
9 Psychiatric technicians	9 Speech Pathologists
46 Psychiatric Technicians	46 Positions

Special Investigation Positions

During the past year there have been numerous grand jury inquiries into the quality of patient care and the circumstances surrounding patient deaths in state hospitals. No standard practice of reviewing the cause of death was being followed when a patient died, regardless of the cause.

Department of Health policy now requires all deaths of patients to be referred to the county coroner. Also, in the current year, the department reclassified one position at each hospital to a special investigator position. The budget proposes that the reclassifications be made permanent in 1977-78.

The special investigator will investigate suspected violations of state hospital system laws, rules and regulations including, but not limited to patient deaths, patient abuse, staff misconduct and employee intimidation. We recommend approval of the proposed reclassifications.

Legislation Authorizes Hospital Executive Officer

We recommend that the Department of Health comply with the provisions of Chapter 962, Statutes of 1976.

We further recommend that no position shall be administratively established nor shall any authorized position be redirected to replace the person appointed as the chief executive officer of the state hospital.

Chapter 962, Statutes of 1976, (AB 4146) revised existing law regarding the administration of the 11 state hospitals. Prior to Chapter 962, each state hospital had a clinical director and a hospital administrator with designated duties and responsibilities with neither person having the overall responsibility for the hospital.

Chapter 962, introduced at the request of the Department of Health, established a new position, hospital director, in each state hospital. The hospital director is to be the chief executive officer of the hospital and responsible for all hospital operations and the overall management of the hospital. The law clearly requires the Director of the Department of Health to appoint either the clinical director or the hospital administrator to be hospital director.

The department is considering establishing a position to fill in behind the person appointed as the hospital director. At the time Chapter 962 was being considered by the Legislature, the department stated that its intent was not to establish an additional top level position and in fact stated the bill had no cost implications.

Therefore, we recommend that (1) the department comply with the provisions of Chapter 962, and (2) no position be administratively established nor any authorized position be redirected to replace the person appointed as the hospital director of each state hospital.

Positions Budgeted in Hospitals Utilized Elsewhere

We recommend that the Department of Health discontinue the practice of borrowing positions budgeted in the state hospitals and utilizing the positions elsewhere in the department.

In recent years, the Department of Health has engaged in the practice of utilizing positions budgeted in the state hospitals for other work at the Treatment Division Headquarters in Sacramento or in other parts of the

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

Department of Health. Since 1974, approximately 20 positions have been borrowed from the hospitals. We have been advised that some of the borrowed positions have been returned to the hospitals and some positions are still borrowed.

We disapprove of the borrowing of positions on a long-term basis as has been practiced by the department. It violates an essential element of good budgeting in that it has the effect of understating the number of positions shown for the headquarters staff in the Treatment Division and overstating the number of positions available at the state hospitals.

Stricter Management of Hospitals Needed

In our 1976–77 Analysis, we identified a problem at the state hospitals regarding budgeted versus actual off-ward assignments in each hospital. At the start of the current fiscal year, the hospitals were budgeted at 105 percent of the 1968 standards in order to deliver 100 percent of the standard on the ward. The other 5 percent consisted of 3 percent for off-ward assignments and 2 percent for vacancies. Off-ward assignments generally divert level-of-care staff, psychiatric technicians or registered nurses to other jobs or functions. These assignments included but were not limited to ground patrol, staff training, food services, mailroom, janitorial cleaning, or escorting patients to medical clinics or surgery.

The actual number of positions used for off-ward assignments ranged from 2 to 13 percent among the hospitals. In instances where the number of positions used was higher than the budgeted 3 percent factor, the actual number of positions available for nursing care on the wards was less than the 100 percent budgeted.

Pursuant to our recommendation, supplemental budget language was adopted requiring the department to submit a report to the Legislature by October 1, 1976 on (1) the number of budgeted versus actual off-ward assignments in each hospital, and (2) a proposed solution for budgeting off-ward assignments at the level actually delivered.

The department submitted the report as directed. We have reviewed it and discussed the problem with departmental staff. It appears to us that part of the problem has been that the individual hospitals have had too much latitude to redirect staff without appropriate review and policy direction from headquarters management staff in the Treatment Division.

However, a major factor in the hospital staffing problem is the proper assignment of staff to the wards with three shifts for 24-hour coverage, seven days a week. In the past, the hospitals have been oriented to the traditional work week, eight to five, Monday through Friday.

When the hospitals were advised of their allocation of increased staff under the 1973 standards, they were also given policy changes in the assignment of professional staff, staffing of the admissions unit, availability of medical records, and procedures for processing newly admitted patients. Management direction of this type is needed on a continuing basis if the hospitals are to function adequately.

Implementing the 1973 staffing standards will not prevent recurrence of past problems unless strong management and supervision of staff utilization comes from Treatment Division headquarters and the management staff of each hospital.

Community Development Task Forces

Supplemental language to the Budget Act of 1976 directed the Department of Health to submit a preliminary plan to the Legislature by January 1, 1977, for correcting all life safety, panic and fire deficiencies at the state hospitals. The department was directed to premise this capital improvement plan upon a total state hospital population of 10,000 patients. The preliminary plan was also to include a tentative timetable for capital construction, reduction of the overall state hospital population, and expansion and/or restructuring of community mental health and regional center programs.

The Governor's Budget indicates that approximately $21.3 million has been proposed in Item 407 (a) for correction of fire, life, safety deficiencies within the state hospitals. The narrative states that a Community Development Task Force is reviewing facility resources within the hospital system and the community to address the needs of mentally and developmentally disabled clients. The Task Force is working on development of the plan required by the supplemental budget language, and its report is expected to be submitted to the Legislature by May 1, 1977.

ITEM 244—PROGRAMS FOR JUDICIALLY COMMITTED PERSONS

The budget proposes a General Fund appropriation of $28,503,106 for state hospital and local programs for mentally disordered persons who are judicially committed, and for whom no county of residence can be determined. This is an increase of $346,854, or 1.2 percent, over the amount estimated to be expended during the current year. Services for such patients are paid 100 percent by the General Fund in contrast to services to patients through the provisions of the Lanterman-Petris-Short and Short-Doyle Acts, which are shared on a 90 percent state/10 percent county basis.

Prior to January 1, 1976, state law required persons found not guilty of a crime by reason of insanity and mentally disordered sex offenders to be committed and treated at state hospitals. Chapter 1274, Statutes of 1975, (AB 1229) effective January 1, 1976, permitted the court to prescribe local commitment and outpatient treatment as an alternative to commitment at a state hospital. It also requires the cost of local treatment of such persons to be a 100 percent General Fund cost.

Table 4 shows the estimated and proposed state support for the judicially committed for 1976–77 and 1977–78.

Table 4
Judicially Committed Program
1976–77 and 1977–78

	Estimated 1976–77	*Proposed 1977–78*	*Difference*	*Percent Change*
State-Operated Services	$27,756,252	$28,161,106	$+404,854	+1.5%
Community Programs	300,000	242,000	−58,000	−19.3%
Program Evaluation and Patient Tracking	100,000	100,000	—	—
	$28,156,252	$28,503,106	$+346,854	+1.2%

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

State-Operated Services and Patient Tracking

We recommend approval of the $28,161,106 proposed for the cost of state-operated services for the treatment of judicially committed persons at state hospitals in the 1977–78 fiscal year. State services are available primarily at Atascadero and Patton State Hospitals. The impact of increased staffing due to the phase-in of the 1973 staffing standards is discussed under the state hospital component of Item 245, Local Mental Health.

The $100,000 in each of the current and budget year appropriations is for the program evaluation and patient tracking system at Atascadero State Hospital. Because Chapter 1274 is in the implementation stage, the tracking system is necessary for accurate monitoring of the progress and placement of persons released from the state hospitals to the community.

Table 5 shows the actual, estimated and projected judicially committed year-end populations for the 1975–76, 1976–77 and 1977–78 fiscal years.

Table 5
State Hospitals
Judicially Committed Year-End Population
1975–76, 1976–77 and 1977–78

Actual 6/30/76	*Estimated 6/29/77*	*Projected 6/28/78*
1,689	1,650	1,590

Slow Implementation of Chapter 1274

Chapter 1274 was effective January 1, 1976 but implementation has been slow. Based on a recent department survey conducted in January of the 20 largest counties, we have been advised that only 36 persons have been treated in the community rather than in state hospitals since January 1, 1976. Implementation of the legislation has been slow for two reasons. First, the courts appear to be reluctant to prescribe local inpatient or

Table 6
Approved County Plans
For Local Treatment of Judicially Committed Patients
(As of 1/14/77)
1976–77 Fiscal Year

Fresno	$106,350
Los Angeles	1,185,820
Orange	90,200
Sacramento	139,500
San Luis Obispo	47,100
San Mateo	48,300
Santa Barbara	32,850
Santa Clara	120,708
Sonoma	67,270
Ventura	63,900
Total	$1,901,998

outpatient treatment for these persons. Second, a number of counties declined to implement the program without start-up planning funds from the state. The law requires the cost of local treatment to be 100 percent state funded. No appropriation was included in the measure because it was expected that local treatment costs would be offset by savings in the state hospital programs.

The state has required that a plan be submitted and approved before funds can be made available. The first county plan was approved November 1, 1976. Since then, nine other county plans have been approved. Table 6 shows the approved county plans at the time this Analysis was prepared.

County proposals have been approved subject to a number of conditions:

1. The county is expected to reduce the county's utilization of state hospitals for this population by a specified number of days.
2. The county agrees to maintain records on persons treated and the nature and cost of services rendered.
3. The state will periodically review local services for cost effectiveness and the impact on state hospital utilization.

The Department of Health presently has the authority to transfer the variable cost of unused state hospital days to local programs to pay for persons who otherwise would have been treated in the state hospital. The funds shown in Table 6 will be available from savings generated in state hospitals as persons are diverted to local programs.

It is too soon to know how successful the counties will be in reducing their utilization of state hospitals and how willing the courts will be to prescribe local treatment for this population as more community programs are developed.

Cost Impact Study Due January 1978

Chapter 1274 also requires the Director of the Department of Health to conduct a study in order to compare the cost and duration of treatment between those patients committed to state hospitals and those patients committed to local facilities or placed on outpatient treatment. The director is required to report his findings to the Legislature by January 1, 1978.

ITEM 245—COMMUNITY MENTAL HEALTH

The budget proposes General Fund expenditures of $332,978,655 for community mental health services, state hospitals, and continuing care in the 1977–78 fiscal year which is $31,461,735, or 10.4 percent, more than is estimated to be expended in the current year. Table 7 shows the actual, estimated and projected state support for community mental health programs, including Short-Doyle, continuing care services, and hospital programs for 1975–76, 1976–77 and 1977–78 fiscal years.

The Department of Health is charged with the administration and support of the state's community mental health programs. This includes the maintenance of six state hospitals for the mentally disordered and the provision of financial assistance to 60 county and community mental health programs.

The budget appropriates funds to the Department of Health, which are then allocated to the state hospitals and to the 58 counties and two cities

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

operating community mental health programs. The funds are allocated under the provisions of the Short-Doyle and Lanterman-Petris-Short Acts. The law authorizes community mental health programs to provide various mental health services which are eligible for 90 percent state reimbursement.

Funds appropriated by this item support three distinct components of local mental health services: (1) state hospital services, (2) community-based inpatient and outpatient services, and (3) continuing care services.

Table 7
Short-Doyle Program
State Support for Community Mental Health Programs
1975–76, 1976–77 and 1977–78

	Estimated 1975–76	*Estimated 1976–77*	*Projected 1977–78*	*Difference between 1976–77 and 1977–78*	*Percent Difference 1976–77 and 1977–78*
Community-Based Programs	$180,941,061	$202,857,731	$224,853,799	$+21,996,068	+10.8%
Continuing Care Services	5,715,129	6,630,445	6,882,556	+252,111	+3.8
State Hospitals	85,336,937	92,028,744	101,242,300	+9,213,556	+10.0
Total	$271,993,127	$301,516,920	$332,978,655	$+31,461,735	+10.4%

Community Based Programs

The budget proposes an expenditure of $224,853,799 for the 1977–78 fiscal year for community based programs which is $21,996,068 or 10.8 percent more than the estimated expenditure for the current year. Item 245(a) local mental health services, contains only the General Fund support. The actual amount of the local programs is larger when the county

Table 8
Short-Doyle Local Program
Total Program by Source of Funding
1975–76 through 1977–78

	Estimated 1975–76	*Estimated 1976–77*	*Proposed 1977–78*
Total Program (all funds)	$278,742,049	$304,791,916	Figures not yet available on gross program and other revenue
Medi-Cal (state and federal funds)	−70,400,119	−74,839,178	
Other Revenue	−55,012,774	−55,414,711	
Net Program (split 90/10 between state and counties)	$153,329,156	$174,538,027	$196,630,257
County 10 percent share:	15,332,916	17,453,803	19,663,026
State 90 percent share:			
Share of Net Program	137,996,240	157,084,224	176,967,231
Share of Medi-Cal	+42,944,821	+45,773,507	+47,886,568
Total General Fund	$180,941,061	$202,857,731	$224,853,799

share, federal grants, Medi-Cal funds, patient fees and insurance fees are taken into account. Table 8 shows the total program cost by source of funding for the 1975–76, 1976–77 and 1977–78 fiscal years. State law provides that the net cost of the program is shared on a 90 percent state and 10 percent county ratio. The net cost is the amount remaining after revenue consisting of patient fees, insurance and grants is deducted from the total cost of the program.

Second Increment of Mental Health Equity Funding Proposed

We withhold recommendation on the $10 million proposed as the second increment of equity funding for county local mental health programs.

We further recommend that the 42 counties receiving an equity allocation in 1977–78 identify the proposed use of their equity allocation and that the department submit the information to the fiscal committees by April 15, 1977.

In the current year, an initial increment of $10.5 million was allocated to community mental health programs to establish equity of funding among counties. The Budget Act language specified that the funds ". . . be allocated among the counties for the purpose of achieving equity among the counties in the distribution of funds, and such allocation shall be based upon a formula developed by the Department of Health."

For 1977–78, a second increment of equity funding is proposed. The Governor's Budget, page 594, states: "An additional increment of $10.0 million has been proposed in fiscal year 1977–78 to continue movement towards the achievement of equity of funding for community mental health programs. A base year of 1975–76 resources has been utilized along with the 22 social indicators of need for allocation of these funds . . . The proposed fiscal year 1977–78 allocations reflect a 6 percent cost-of-living increase to all county mental health programs in addition to the $10 million equity allocation to 42 counties." The 6 percent cost increase proposed for 1977–78 is $12,563,158 and includes the Protective Living Services cost increase.

Page 595 of the Governor's Budget shows current year allocations, the 6 percent cost increase allocations for 1977–78, the equity allocations for 1977–78 and the total local mental health allocation proposed for 1977–78 for each county. The allocations on page 595 include the General Fund portion of the funds discussed under Protective Living Services (Continuing Care Services).

Current Year Allocation

In the final allocation letter for the 1976–77 fiscal year dated August 13, 1976, the counties were given instructions for use of the $10.5 million equity funds. The letter states that "Those counties planning to use the additional funds must reflect that intention in the September budget. Program expansion or new programs made possible through this augmentation or redirection of existing funds should be in line with Department of Health priorities. They are (1) preventive services, (2) services to minorities, (3) services to children and (4) appropriate use of 24-hour acute hospital-based services."

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

In practice, the counties used the funds to cover higher than budgeted cost increases, increased malpractice costs, declining federal grants, existing program expansion and development of new programs in some instances. It does not appear that the department is applying all pertinent sections of existing state law that relate to the allocation of funds and priorities for the use of such funds.

We therefore recommend that the 42 counties scheduled to receive equity allocations tentatively identify their plans for the use of such funds and that the department submit the information to the fiscal committee by April 15, 1977. The information should also indicate how the proposed use of the funds correlates with existing law.

Alternative Reimbursement Study Needed

We recommend that the Department of Health submit a report to the Joint Legislative Budget Committee by November 1, 1977 on alternative methods of reimbursement for mental health services.

Under current state law, mental health services are reimbursed at actual cost. In recent years, the actual cost provisions have contributed to some problems for local mental health programs. For example, if the budget includes a 6 percent cost-of-living factor and the actual cost to the counties for contracts with providers is in excess of that, programs must be reduced.

The county is often forced to decide among providers and services where to cut or reduce a program. The providers, under actual cost, have little or no incentive to be cost-effective or to hold costs to the budgeted cost-of-living increase.

The present method of reimbursing for services provided deserves study. Therefore, we recommend that the Department of Health, in conjunction with the Conference of Local Mental Health Directors, study alternative methods of reimbursement.

Slow Submission of Required Cost Reports and Final Budgets

We recommend that counties comply with existing state law related to the timely submission of cost reports and final budgets.

Section 5714 of the Welfare and Institutions Code requires claims for reimbursement to be submitted within 60 days after the close of the period for which the reimbursement is sought. A total of 25 counties had not submitted their cost reports for the 1975–76 fiscal year as of January 10, 1977.

Section 5650 of the Welfare and Institutions Code requires the Board of Supervisors of each county to submit by March 15 of each year an annual Short-Doyle plan for the next fiscal year. The plan is to be compatible with the budget for the next fiscal year submitted by the Governor to the Legislature. Section 5703.1 requires the Department of Health to review and approve each county plan by May 15 of each year. If the amount subsequently appropriated in the Budget Act differs from the budget submitted by the Governor for such fiscal year, the county shall submit a revised plan as required by the department.

The amount appropriated for local programs in the 1976 Budget Act differed substantially from the Governor's Budget as introduced. The final allocations were given to the counties approximately three weeks late. The department extended the original due date for submission of final budgets from September 1 to October 1, 1976.

As of January 10, 1977, 10 counties and community programs had not submitted their revised final budgets for the 1976–77 fiscal year.

The problem of late submission of cost reports and final budgets precludes adequate timely fiscal analysis of the mental health program. We recommend that the counties comply with existing statutory requirements related to submission of cost reports and final budgets.

Recommendations Not Submitted by Department (Chapter 1258, Statutes of 1975)

We recommend that the Department of Health submit to the fiscal committees by April 15, 1977 its findings and recommendations for mental health services to jail inmates and juvenile detainees.

Chapter 1258, Statutes of 1975, (AB 1228) directed the Department of Health to undertake a study in five or more counties to determine the extent to which the need for mental health services of mentally disordered jail inmates and juveniles in detention facilities is being met. Section 5403 of the Welfare and Institutions Code further required that the department submit its findings and recommendations to the Legislature by March 1, 1976.

The department determined that a private contractor could best perform the study and draft the report. After development of a request for proposal and solicitation of bids, a contract for $94,630 was awarded to a private consulting firm on March 8, 1976. The study covered services in Fresno, Humboldt, Los Angeles, Santa Clara and Sonoma counties. A 676 page report was submitted to the department in October 1976.

To date, the department has not submitted its findings and recommendations to the Legislature as the law requires. In early January, the department submitted the consultant's report to the Legislature. We understand from discussions with department staff that the department does not agree with all of the recommendations in the consultant's report. Submission of the consultant's report does not meet the requirements of state law.

We believe that the department should report to the Legislature its findings and recommendations as the law requires. The report should be submitted to the fiscal committees by April 15, 1977.

Identification of Drug Programs in the Mental Health Budget

We recommend that the Department of Health identify and submit to the fiscal committees by April 15, 1977, a list of discrete drug programs in the mental health budget.

Presently, funds for treating drug abusers or persons with drug use problems are available in both the local mental health and substance abuse programs. The reason for this is largely historical.

The Substance Abuse program was established in 1973 to implement provisions of the Campbell-Moretti-Deukmejian Drug Abuse Act of 1972 through the funding of comprehensive community-based programs for the prevention, treatment and rehabilitation of narcotic addicts and drug abusers. Local mental health programs were already providing some services to persons with drug problems prior to the enactment of the legislation.

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

At the time the Substance Abuse program was established in 1973, no funds were transferred from local mental health programs to the newly established drug program. Additional General Fund support was provided. The proposed General Fund support for drug abuse programs in 1977–78 is $11,528,872 in Item 246.

We recently requested that local mental health program staff identify those providers in the mental health programs that primarily serve drug abusers. The department supplied a preliminary list of programs totaling approximately $5.5 million General Fund in the current year.

We believe that programs and providers that primarily serve drug abusers should be budgeted in the same budget item and allocated and reviewed as part of the Drug Abuse program. For example, some of the programs in local mental health are methadone maintenance which, in our opinion, should be in the drug abuse program, not the mental health program.

The department states that if a decision is made to transfer mental health funds expended on drug abusers to the Drug Abuse program, a procedure should be established similar to the one used to effect the transfer of alcohol funds from the mental health program to the newly established Office on Alcoholism. The procedure involves a clear identification and definition of what constitutes a discrete drug abuse program.

We recommend that the department take steps to identify discrete drug programs in the mental health budget and submit the list of such programs to the fiscal committees by April 15, 1977.

Proposed Positions—Short-Doyle Medi-Cal

The budget proposes the establishment of two Community Program Analyst III positions and one stenographer at a cost of $82,033 in Item 241, Department of Health support, to provide necessary staff to assure that all Short-Doyle Medi-Cal providers are in compliance with applicable provisions of state and federal law. Presently, approximately four professionals and two clerks work on the Short-Doyle Medi-Cal program and also have responsibility for state hospital compliance with Medi-Cal provisions.

The additional staff will certify new providers, promulgate necessary guidelines and perform site visits and record audits for over 400 Short-Doyle Medi-Cal providers. We recommend approval of the positions.

Pilot Project on Short-Doyle Medi-Cal Consolidation

We recommend that any pilot project on Short-Doyle Medi-Cal consolidation include all mental health services and funds available under the regular Medi-Cal program.

Under current state law, psychiatric health care services for Medi-Cal recipients are available through the Medi-Cal program and the Short-Doyle program (Short-Doyle Medi-Cal). Each program has different criteria, benefits and reimbursement allowances. Service limitations are much more restricted under regular Medi-Cal than under Short-Doyle Medi-Cal.

The Department of Health and the Conference of Local Mental Health

Directors have been studying the feasibility and desirability of consolidating all Medi-Cal Mental Health services and funds in one system. There are many legal, programmatic and administrative problems that will have to be addressed before the pilot project can begin.

In the current year, Short-Doyle Medi-Cal services are estimated to cost approximately $75 million ($29.3 million federal funds and $45.7 million General Fund). These funds are budgeted within the mental health appropriation and used by the counties to provide services to Medi-Cal beneficiaries as part of the locally provided mental health program.

In addition, there are other funds spent under the authority of the Medi-Cal program that are budgeted in the Medi-Cal item. The department identified approximately $58 million in Medi-Cal fee-for-service expenditures in calendar year 1975 for claims involving a psychiatric diagnosis for inpatient hospital services, and psychiatrists and clinical psychologists.

The purpose of compiling the fiscal data was to identify the amount of Medi-Cal dollars that would be transferred to the participating counties if the Short-Doyle/Medi-Cal consolidation project ever becomes an actuality. At the time we prepared this analysis, an attempt was being made to identify Medi-Cal dollars expended and utilization data for skilled nursing facilities (SNF) services, intermediate care facility (ICF) services, drugs, and lab-related costs.

We understand that consideration is being given to establishing a pilot project that would consolidate all Medi-Cal funds except those funds for SNF, ICF and drug services. There are already existing problems with the overlap of the two systems. Unless the pilot project tests the concept of consolidation of all Medi-Cal mental health funds in the Short-Doyle system, we see no point in undertaking the effort.

We recommend that any pilot project to consolidate Medi-Cal mental health funds include all mental health services and related funds available under the regular Medi-Cal program.

Table 9

Protective Living Services—
Cost of State Provided Services (CCSS)
and County Provided Services (Opt-Out Counties)
1976–77 and 1977–78

	Estimated 1976–77			*Proposed 1977–78*		
	CCSS State Program	*Opt-Out County Program*	*Total*	*CCSS State Program*	*Opt-Out County Program*	*Total*
Gross Program (all funds)	$14,243,885	$1,633,565	$15,877,450	$15,273,260	$1,660,517	$16,933,777
Federal Title XX Funds	−7,415,728	−1,094,561	−8,510,289	−8,191,931	−1,094,561	−9,286,492
Net Program (split 90/10 between state and counties)	$6,828,157	$539,004	$7,367,161	$7,081,329	$565,956	$7,647,285
County 10% Share	$682,816	$53,900	$736,716	$708,133	$56,596	$764,729
State 90% Share	$6,145,341	$485,104	$6,630,445	$6,373,196	$509,360	$6,882,556

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

PROTECTIVE LIVING SERVICES

The budget proposes a General Fund expenditure of $6,882,556 for providing protective living services to the mentally disabled for the 1977–78 fiscal year which is $252,111, or 3.8 percent, more than is estimated to be expended during the current year. Total support, shown in Table 9, for this function is budgeted at $16,933,777 for the 1977–78 fiscal year, which is an increase of $1,056,327, or 6.7 percent, over the amount estimated to be expended during the current fiscal year.

Protective living services may be provided either by county employed staff or by state staff. The opt-out column heading in Table 9 refers to the 14 counties which perform this function with their own staff. The CCSS column in Table 9 is the cost of services provided by state employees in the Continuing Care Services Section under contract with the remaining counties who have not opted out.

These services are available pursuant to state law and Title XX federal regulations under the Social Security Act. Section 10053.8 of the Welfare and Institutions Code provides that the Department of Health or the county may provide protective social services as follows:

1. To care for mentally disabled patients released from state hospitals.
2. To prevent the unnecessary admissions of mentally disordered persons to hospitals at public expense, and
3. To facilitate the release of mentally disabled patients for whom hospital care is no longer the appropriate treatment.

Services provided include individual, family and group counseling, case management, preplacement planning, continuing care following placement, recruitment of placement resources, and counseling of persons in their own home or in out-of-home placement. The vast majority of clients served by this function are public assistance recipients such as Supplemental Security Income/State Supplementary Payment (SSI/SSP) recipients or individuals whose annual income does not exceed 80 percent of the California median income.

Continuing Care Services Section

There are two cost elements of the Continuing Care Services Section. The first part includes salaries and wages, staff benefits and operating expenses for the section. The second part is the funding of placing persons in facilities. Many of the persons are public assistance recipients. If a person receives an SSI/SSP grant, the cost of the grant is not reflected in this item. Rather the General Fund portion of grant cost is contained in the Department of Benefit Payments budget. In instances where persons do not qualify for a public assistance grant, the department may pay for the cost of placement in an appropriate facility. The placement funds are also used to supplement the basic assistance grant to purchase an enriched program. Table 10 identifies the number of personnel years and total expenditures by staff and placement for the Continuing Care Services Section in 1976–77 and 1977–78 fiscal years.

Table 10
Continuing Care Services Section
Mentally Disabled
Staff and Placement Expenditures
1976–77 and 1977–78

	1976–77	*1977–78*
Personnel-years	456.4	454.4
Staff	$12,262,657	$13,292,032
Placement	1,981,228	1,981,228
Total	$14,243,885	$15,273,260

Budget narrative indicates that the 454.4 staff are located in 47 field offices and provide services to approximately 14,095 persons in the community. The location of the persons is as follows: 95 children are in residential treatment facilities, 2,000 persons live in small family homes, 5,700 persons live in other out-of-home residential care placements and 6,300 clients reside in their own homes.

"Opt-out" Moratorium Lifted

The general function of protective living services provided by the current Continuing Care Services Section was established in 1946. At that time, it was part of the former Department of Mental Hygiene and provided services to persons released from state hospitals. Since then, it has been transferred to various departments and became part of the present Department of Health on July 1, 1973.

Starting July 1, 1969, counties were permitted to "opt-out" of purchasing these services from the state and could instead provide them directly. Since that date, 14 counties opted-out and receive proportionate funds for the provisions of services in their county. As a condition of receiving the funds, the counties were required to employ the state employees who had previously been providing the service. In July 1974, a moratorium on any further opt-outs by counties was declared by the Department of Health.

On January 5, 1977, the Department of Health announced that the moratorium on county operation of continuing care services was terminated. Guidelines and criteria to be met prior to opt-out were being developed at the time this analysis was written. The department has stated that no opt-outs will be authorized prior to July 1, 1977.

Therefore, the amount of state, county and federal funds shown for the opt-out counties in Table 9 should be considered the minimum expenditure that can be projected for 1977–78. As counties opt-out, the CCSS amount of funds and total personnel will decrease and the opt-out expenditure will increase.

STATE HOSPITALS FOR THE MENTALLY DISABLED

The Department of Health operates six programs for the mentally disordered (MD). The programs are available at Atascadero, Camarillo, Metropolitan, Napa, Patton and Stockton State Hospitals. The budget proposes total expenditures for state hospital services of $101,242,300 for the 1977–78 fiscal year which is $9,213,556, or 10 percent, more than is estimated to be expended during the current year. Salary increase and TEC (Total

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

Equivalent Compensation) funds for the 1977–78 fiscal year for state hospital employees are contained in Items 379–381.

Implementation of 1973 Staffing Standards

At the start of the current year, the state hospitals were staffed at 105 percent of the 1968 staffing standards. The Legislature appropriated an additional $10 million in Item 287.1 of the 1976 Budget Act to implement the 1973 staffing standards or other standards designed to provide improved levels of treatment and rehabilitation services to patients. The Governor reduced the item by $4 million and subsequently used the $6 million to increase the staffing in the state hospitals from 105 percent to 110 percent of the 1968 standards. On December 8, 1976, a Section 28 letter was submitted to the Legislature indicating that after 30 days the Department of Health was authorized to implement the 1973 staffing standards. The first phase of the increased staffing was to be funded within salary savings in the current year.

The actual and proposed position changes in the current and budget years for the hospitals serving the mentally disordered and judicially committed are as follows:

1. 116 positions were added in the current year from the funds in Item 287.1.
2. 353.1 positions were added in the current year for the first phase of the 1973 standards pursuant to the Section 28 letter submitted December 8, 1976 to the Legislature.
3. 114 positions have been reduced in the budget year to adjust for a projected population reduction.
4. 88 positions are proposed to be added in the budget year for the second phase of the 1973 staffing standards.

Population Reductions

In March 1976, the Department of Finance submitted a budget amendment request proposing that utilization of the state hospitals in 1976–77 be reduced where feasible. As part of the amendment request, the Department of Health prepared two year-end population projections for the 1976–77 fiscal year. The first projection was the estimated year-end population on June 30, 1977 of 4,290 patients based on no management action taken to reduce the population. The second projection was the target year-end population on June 30, 1977 based on management action taken to reduce the population by 500 patients to 3,790 patients. The Legislature agreed with the effort to reduce the population. The amount of $3,102,500 was shifted from state hospitals to the local programs to fund treatment of patients who otherwise would have been treated in the state hospitals.

According to the Governor's Budget, it appears that the target year-end population for the current year will be reached. There is also a further reduction of 175 patients projected by the end of June 28, 1978. The year-end populations for the 1975–76, 1976–77 and 1977–78 fiscal years are shown in Table 11.

Table 11
Year-End Population Projections
State Hospitals for the Mentally Disordered
Excluding Judicially Committed Patients
1975–76 through 1977–78

	Actual 6/30/76	*Estimated 6/29/77*	*Projected 6/28/78*
Atascadero	111	—	79
Camarillo	1,258	1,065	906
Metropolitan	1,219	920	982
Napa	1,468	1,530	1,302
Patton	145	155	248
Stockton	90	95	73
Total	4,291	3,765	3,590
Change from Prior Year		−526	−175

The turnover of MD patients is high. The length of stay ranges from a 72-hour admission to a 14-day or longer admission. The projected number of admissions is 21,574 for the current year and 18,982 for the budget year. Thus, the figures in Table 11 represent a population that turns over many times in one year.

New Approach Proposed for Reducing Population

At the start of the current year, the counties were told the amount of their local program allocation and their state hospital day allocation. The state hospital day allocation and the state hospital budget were built on the assumption that the counties would achieve the target year-end population.

For the 1977–78 fiscal year, the department has developed a new method of budgeting funds to achieve a population reduction. The $101,242,300 proposed for the 1977–78 fiscal year is sufficient to treat the July 1, 1977 population of 3,765 for the entire fiscal year.

In a letter to the counties dated January 17, 1977, the Department of Health restated its policy on county utilization of the state hospitals. Our understanding of the letter as it relates to the proposed 1977–78 budget is as follows:

Counties will be allocated a number of days that would correspond to a daily population of 3,765 for the year. If counties intend to divert patients from the state hospitals, they may submit a plan for such a diversion to the Department of Health. Upon approval of the plan, the county will be reimbursed the full variable cost for the number of days reduced, up to the maximum allowed in the plan.

The budget projects a June 30, 1978 population of 3,590, which is 175 less than the June 29, 1977 estimated population of 3,765. The number of positions associated with the gradual reduction of 175 patients over the course of the year is 114. The variable cost related to the incremental reduction over a 12-month period of 175 patients is $677,922.

The department's proposed budget will permit counties to plan for reduced utilization of the state hospitals. A county may have difficulty in developing additional facilities or in locating sufficient appropriate facilities for placements. In that situation, the county could utilize its entire state hospital day allocation. To the extent counties have difficulty in treating additional persons in the community, the projected June 28, 1978

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

population will not be reached.

Proposed Positions—Food Service

We recommend approval of the budget proposal to establish 37 new positions at the state hospitals to provide increased supervision in congregate dining facilities. Table 12 lists the proposed staffing by hospital.

Table 12
State Hospitals
Positions Requested for Increased Supervision of Dining Facilities

Hospital	*Positions Requested*
Agnews	24 Food Service Assistants I
Atascadero	5 Food Service Assistants I
Patton	8 Food Service Assistants I
	37

If these positions are not approved, level-of-care treatment staff will have to be diverted to perform the function. The proposed positions are justified on a workload basis and we recommend their approval.

ITEM 247—DEVELOPMENTAL DISABILITIES

The Department of Health is responsible for administering those programs which provide services to individuals who are developmentally disabled (DD). State law defines a developmental disability as a disability originating before the age of 18, which continues, or can be expected to continue, indefinitely, and constitutes a substantial handicap for the individual. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, or autism.

Three major components are funded by this item:

1. Regional centers located throughout the state which provide specified services, including diagnosis, evaluation, referral and placement of developmentally disabled persons in appropriate public and private basic living and care facilities.
2. Protective living and social services provided either by the state or directly by those regional centers which have chosen not to participate in the state-operated program.
3. State hospital programs which provide state-managed care, treatment and life maintenance services at the request of the regional centers.

The budget proposes an appropriation of $275,591,053 for support of the Developmental Disabilities program for the 1977–78 fiscal year. In addition, $2,036,896 is included in Item 253 for provider rate increases for a total proposed General Fund program expenditure of $277,627,949 which is $40,272,069, or 17 percent, over the amount estimated to be expended during the current fiscal year.

Total support for the Developmental Disabilities program for the current and budget years is shown in Table 13. The total funding level is proposed at $291,001,946 in the budget year which is an increase of $32,614,893, or 12.6 percent over the amount estimated to be expended during the current fiscal year.

Table 13
Total Support for Developmental Disabilities Program
1976–77 and 1977–78

	Estimated 1976–77	*Proposed 1977–78*	*Difference*	*Percent Change*
General Fund	$237,355,880	$277,627,949 [a]	$40,272,069	+17%
Federal Social Rehabilitation Service (SRS) Funds	10,136,711	10,147,596	+10,885	0
Federal Public Law 94-103 Funds	1,831,827	2,626,401	+794,574	+43.4
Federal Title II Funds	8,462,635	—	−8,462,635	−100
Family Repayments	600,000	—	−600,000	−100
Program Development Fund	—	600,000	+600,000	—
	$258,387,053	$291,001,946	$32,614,893	+12.6%

[a] Includes $2,036,896 for provider rate increases in Item 253.

Table 14 shows the program elements by source of funding for the current and budget years.

Table 14
Developmentally Disabled Program
Program Elements by Source of Funding
1976–77 and 1977–78

	Estimated 1976–77	*Proposed 1977–78*	*Difference*	*Percent Change*
Regional Centers				
General Fund	$50,638,956	$80,578,246 [a]	$29,939,290	+59.1%
Federal Title II	7,802,664	—	−7,802,664	−100
Federal SRS (Social Rehabilitation Services)	6,355,315	6,673,081	+317,766	+5
Family Repayments	600,000	—	−600,000	−100
Total	$65,396,935	$87,251,327	$21,854,392	+33.4%
Protective Living Services				
General Fund	$3,696,519	$5,946,141	$2,249,622	+60.9%
Federal Title II	659,971	—	−659,971	−100
Federal SRS	3,286,396	3,474,515	+188,119	+5.7
Total	$7,642,886	$9,420,656	$1,777,770	+23.3%
Special Treatment Program				
General Fund	$1,600,000	$1,600,000	—	0%
Total	$1,600,000	$1,600,000	—	0%
Community Program Development				
General Fund	$475,927	—	$−475,927	−100%
Federal Public Law 94-103	1,831,827	$1,007,981	−823,846	−45
Federal SRS	495,000	—	−495,000	−100
Program Development Fund	—	600,000	+600,000	—
Total	$2,802,754	$1,607,981	$−1,194,773	−42.6%
State Hospitals				
Total General Fund	$180,944,478	$189,503,562	$+8,559,084	+4.7%
State Council				
Federal Public Law 94-103	—	$578,007	$+578,007	—
Total	—	$578,007	$578,007	—
Area Boardson D. Disabilities				
Federal Public Law 94-103	—	$1,040,413	$1,040,413	—
Total	—	$1,040,413	$1,040,413	—
Total General Fund	$237,355,880	$277,627,949 [a]	$40,272,069	+17%
Total Title II	8,462,635	—	−8,462,635	−100

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

Total SRS	10,136,711	10,147,596	+10,885	—
Total Public Law 94-103	1,831,827	2,626,401	+794,574	+43.4
Family Repayments	600,000	—	−600,000	−100
Program Development Fund	—	600,000	+600,000	—
Total Program	$258,387,053	$291,001,946 [a]	$32,614,893	+12.6%

[a] Includes $2,036,896 for provider rate increases in Item 253.

Significant fiscal and programmatic changes have occurred in the current year and are further reflected in the budget year proposal. The changes include the following:

1. Chapters 1364 to 1373, Statutes of 1976, (AB 3800 to AB 3809) which substantially revised state law related to the provisions of services to the developmentally disabled.
2. Implementation of the 1973 staffing standards. The 1977–78 state hospital proposal includes 499.5 positions for the second increment of the standards.
3. Regional centers received $7.8 million in Title II, Public Works Employment Act funds to support 6,019 additional cases. The 1977–78 regional center budget includes funds to support an additional 8,500 cases.
4. The Protective Living Services function, carried out by the Continuing Care Services Section, received $659,971 in Title II funds in the current year to establish 48.5 positions to handle increased caseload. The 1977–78 budget proposes the establishment of 105 positions at a cost of $2,104,403 to handle increased caseload, provide additional nursing consultation services and develop community resources.

STATE HOSPITALS FOR THE DEVELOPMENTALLY DISABLED

The Department of Health operates programs for the developmentally disabled at nine state hospitals. Admission to a state hospital program is obtained only by referral from one of 21 statewide regional centers and is based on the determination that state hospital services are preferable to all alternatives.

The budget proposes total expenditures for state hospital services of $189,503,562, which is $8,559,084, or 4.7 percent, over the estimated current year expenditure. Salary increases and TEC (Total Equivalent Compensation) funds for state hospital employees are contained in Items 379–381.

Implementation of 1973 Staffing Standards

The adoption of the 1973 staffing standards which we discussed earlier, applied to the hospitals for the developmentally disabled as well as the hospitals for the mentally disabled.

The actual and proposed budget changes in the current and budget years for hospitals serving the developmentally disabled are as follows:

1. 330 positions were added in the current year from funds in Item 287.1.
2. 244.8 positions were added for the first phase of the 1973 standards pursuant to the Section 28 letter submitted December 8, 1976 to the Legislature.
3. 335 positions have been reduced in the budget year to adjust for a projected population reduction.
4. 499.5 positions are proposed to be added in the budget year for the

second increment of the 1973 staffing standards.

Population Reduction Projections

In December 1975, the Superior Court of Los Angeles ordered that all mentally retarded patients judicially committed to a state hospital prior to January 1, 1976 must have their cases reviewed by a regional center to determine the propriety of continued commitment or placement in the community. The ruling, known as the *Bisagna decision,* applied to 2,300 persons in state hospitals who had been committed from LA County.

Chapter 1364, Statutes of 1976, (AB 3800) extended the *Bisagna decision* to an additional 3,300 persons who had been judicially committed to state hospitals from the remainder of the state prior to January 1, 1976.

The budget indicates that the review of commitments will lead to some community releases and a higher population of regional center registered clients. However, individuals unable to provide safely for their own food, clothing and shelter will be retained in hospitals until appropriate sheltered placement can be found.

The Governor's Budget projects a reduction of 505 patients in the 1977–78 fiscal year. Table 15 shows the year end populations for the 1974–75, 1975–76, 1976–77 and 1977–78 fiscal year.

Table 15
Year-End Population Projections
State Hospitals for the Developmentally Disabled
1974–75, 1975–76, 1976–77 and 1977–78

Hospital	*Actual 6/25/75*	*Actual 6/30/76*	*Estimated 6/29/77*	*Projected 6/28/78*
Agnews	888	936	997	1,030
Camarillo	620	587	562	451
Napa	400	381	381	303
Patton	374	314	325	256
Fairview	1,696	1,685	1,689	1,620
Pacific	1,774	1,726	1,657	1,589
Porterville	1,755	1,741	1,720	1,663
Sonoma	1,961	1,942	1,919	1,865
Stockton	629	630	636	604
Total	10,097	9,942	9,886	9,381
Change from prior year		−155	−56	−505

REGIONAL CENTERS

By law, regional centers are the point of contact in the community for developmentally disabled persons and their families "to the end that such persons may have access to the facilities and services best suited to them throughout their lifetime." Currently, there are 21 centers under contract with the Department of Health. Regional centers must be operated by private nonprofit community agencies.

This proposed General Fund support in the 1977–78 fiscal year is $80,578,246, which is $29,939,290, or 59.1 percent over the current year estimated expenditure. The $80,578,246 consists of $78,541,350 funded by this item and $2,036,896 in Item 253. Item 253 contains funds for provider rate increases that would be transferred to identified programs upon the order of the Department of Finance. The $2,036,896 is the cost of a 6-percent provider rate increase. Total funding, all sources, as shown in Table 14, is proposed to be $87,251,327 in the budget year, which is an increase of $21,854,392, or 33.4 percent, over the estimated current year expenditure.

Public Works Employment Act—Current Year

On December 1, 1976, pursuant to the provisions of Section 28 of the Budget Act of 1976, the Department of Finance notified the Legislature of its approval of the Department of Health's plan for expenditure in the current year of $8,462,635 in funds available from Title II, Public Works Employment Act of 1976. The $8,462,635 request consisted of $7,802,664 for regional centers and $659,971 for aftercare services.

The Finance letter stated that recent estimates of caseload growth projects an additional 6,019 new clients to be served beyond the amount budgeted. The Title II funds are being used by the centers to purchase services including diagnosis, counseling, workshop activities, out-of-home placement, physical and occupational therapy and day care.

The current year budget included funds for 37,238 cases (34,480 existing cases plus 2,758 new cases). The Title II funds for 6,019 additional cases increased the estimated current year caseload to 43,257 (37,238 plus 6,019).

The budget indicates that the Department of Health projects a continuation of the trend of increased caseload and anticipates a net increase of 8,500 cases for 1977–78. Table 16 shows actual, estimated and projected cases for 1975–76, 1976–77 and 1977–78.

Table 16
Regional Centers Caseload
1975–76 to 1977–78

	Actual 1975–76	*Estimated 1976–77*	*Projected 1977–78*
Cases	34,480	43,257	51,757
Change from prior year		+8,777	+8,500

Budget narrative also states that the proposed $87 million budget includes $23.85 million from the General Fund to provide for the services to 8,500 new clients and the increased costs of clients added this year.

Positions Requested for Increased Management

The budget proposes the establishment of six positions in the Regional Centers Section consisting of two associate government program analysts, two staff services analysts, one auditor I and one stenographer. The positions are justified for a number of reasons and we recommend their approval. The first reason is that newly enacted legislation, Chapter 1368, Statutes of 1976, (AB 3804) substantially revised the portion of state law related to contracting with regional centers. Chapter 1368 now requires that contracts between the governing boards of regional centers and the state shall include specific performance and reporting requirements relative to the responsibilities of regional centers. The provisions of Chapter 1368 will require additional state staff to review regional center activities adequately.

The second reason is that the use of funds by regional centers must be more closely reviewed than in the past. At the time we received the Section 28 letter related to funding 6,019 additional cases with $7.8 million in Title II funds, we questioned the Department of Health as to its specific plans to allocate the funds. The department advised us that (1) priorities were being developed for services to be purchased with the additional funds and (2) steps were being initiated to insure that centers follow the priorities and expend the funds on a uniform basis statewide.

The current effort to develop priorities for the expenditure of funds should have occurred years ago. We are aware that there is resistance on the part of some regional centers to the establishment of priorities. However, we believe it imperative that priorities be established and that the regional centers be required to follow such priorities. The addition of six positions, combined with other changes in the fiscal reporting system, should provide the program managers of the regional centers with the necessary staff to monitor the regional centers' activities on a timely basis.

Transfer of Patients Delayed—Regional Centers Priorities

We recommend that the first priority of the regional centers should be to serve: (1) persons who have been identified as appropriate for transfer from the state hospital to the community and (2) persons in the community who would be admitted to the state hospital without intervention of the regional center.

During budget hearings this past spring, the Department of Finance indicated that there was a need to reduce dependence on state hospital services when feasible in light of pending capital outlay decisions. The Department of Health identified approximately 225 persons in the state hospitals who were suitable for community placement. Necessary funding was included in the 1976–77 regional center budget to serve those persons.

We were advised that movement of a number of those persons was delayed pending resolution of the current year regional center funding problem. State hospital services are generally more expensive than community services. The cost of treating a person in the state hospitals will continue to increase as the 1973 staffing standards are phased in.

We believe that the department erred in not directing the centers to provide necessary services to state hospital patients identified as appropriate for community placement. Necessary funds were included in the 1976–77 regional center budget to serve these persons. Therefore, we recommend that the first priority of the regional centers should be to serve (1) persons who have been identified as appropriate for transfer from the state hospital to the community and (2) persons in the community who would be admitted to the state hospital without intervention of the regional center.

PROTECTIVE LIVING SERVICES

The budget proposes the expenditure of $9,420,656 in state and federal funds for the provision of protective living services to the developmentally disabled. These funds support the costs of staff of the Continuing Care Services Section (CCSS). Table 17 shows the current and proposed level of funding by source of funds.

Table 17
Protective Living Services
Continuing Care Services Section
1976–77 and 1977–78

	Estimated 1976–77	*Proposed 1977–78*	*Difference*	*Percent change*
General Fund	$3,696,519	$5,946,141	$2,249,622	+60.9%
Federal—Title II	659,971	—	−657,971	−100.0
Federal—SRS	3,286,396	3,474,515	+188,119	+5.7
	$7,642,886	$9,420,656	$1,777,770	+23.3%

The Continuing Care Services Section serves DD clients in 36 field offices located throughout the state. CCSS provides case management services to clients in out-of-home care. Also, placement and follow-up services are provided to persons who have been released from state hospitals or who might require state hospital care without CCSS intervention.

Public Works Employment Act, Title II—Current Year

In December 1976, pursuant to the provisions of Section 28 of the Budget Act of 1976, the Legislature was notified of the Department of Finance's approval of the Department of Health proposal for expenditure of $8,462,635 in federal funds available from Title II, Public Works Employment Act of 1976. Of the $8,462,635, $659,971 was to fund 48.5 new positions consisting of five supervising psychiatric social workers, 31.5 psychiatric social workers and 12 clerk-typist IIs.

The positions were necessary to handle increased referrals of clients from the regional centers and to handle increased referrals of clients ready for discharge from the hospital and placement in the community.

Budget Year—105 Proposed New Positions

The proposed budget includes $2,104,403 for 105 new positions. The request consists of three parts as shown in Table 18.

Table 18
Continuing Care Services Section
Proposed New Positions
1977–78

Element	*Personnel-Years*	*Cost*
Increase CCSS Caseload:		
Supervising Psychiatric Social Worker I	10	
Psychiatric Social Worker	62	
Clerk-Typist II	24	
Total	96	$1,898,242
Nursing Consultation:		
Public Health Nurse	3	84,961
Development Community Resources:		
Psychiatric Social Worker	6	121,200
Total Proposed Positions	105	$2,104,403

The Governor's Budget indicates that during the current year, the projected caseload growth of the regional centers will be 8,777 cases. Of that amount, 18 percent, or approximately 1,580 cases, will be provided out-of-home care services by CCSS. In the budget year, regional center caseload growth is expected to be 8,500 cases, of which 1,530 will be provided services by CCSS. The actual and estimated caseload growth for CCSS is shown in Table 19.

Table 19

CCSS—Caseload Projections

	Actual 1975–76	*Estimated 1976–77*	*Projected 1977–78*
Cases	8,100	9,680	11,210
Change from prior year		+1,580	+1,530

Of the 105 proposed new positions, 96 are requested for anticipated increased caseload. Of the 96 positions, 48.5 positions are requested to continue the 48.5 positions established in the current year with Title II Public Works Employment Act funds, and 47.5 new positions are requested to handle the projected increase in CCSS caseload. The positions are justified on the basis of the increased workload and we recommend approval.

Three public health nurse positions are proposed at a cost of $84,961 in 1977–78 to provide nursing consultation services in three sparsely covered areas of the state. Presently, services are provided by 15 nurse consultants in all areas of the state except the North Coast and Los Angeles areas. The establishment of the three positions will provide nursing consultation services in the remaining areas of the state and we recommend approval of the positions.

Lastly, the budget proposes the establishment of six noncase-carrying psychiatric social workers at a cost of $121,200 in the budget year. Budget narrative states that the six proposed positions will provide a continuing assessment of community facility needs in service areas and will serve as resource people to local planners in the recruitment and development of new resources and services within the service areas.

CCSS staff presently devote some of their time to development of community resources as part of their case-carrying responsibilities. None of the staff, however, is assigned full-time to develop community resources.

We are withholding recommendation on the six proposed positions pending further review of the justification of the positions. From a policy perspective, we are not yet convinced that establishing six psychiatric social workers in the CCSS is the most effective utilization of resources to develop community programs.

SPECIAL TREATMENT "PATCH" PROGRAM

The budget proposes General Fund expenditures of $1,600,000 in the budget year for the Special Treatment program. The amount proposed is identical to the current year estimated expenditure.

The Special Treatment program, frequently called the "Patch" program, provides for skilled nursing facilities to receive an additional $4.28

DEPARTMENT OF HEALTH—HEALTH TREATMENT DIVISION—Continued

per patient day for providing a special rehabilitative program for the developmentally disabled. The $4.28 is paid in addition to the approximate $22 to $25 per day the facility receives for the basic care of the patient under the Medi-Cal program.

The $4.28 per patient day cost is shared evenly between the General Fund and federal funds. The estimated current and budget year expenditures are shown in Table 20. Only the General Fund money is reflected in the funds budgeted in this item.

Table 20
Special Treatment Program
Skilled Nursing Facilities
Developmentally Disabled
1975–76 through 1977–78

	Actual 1975–76	*Estimated 1976–77*	*Proposed 1977–78*
General Fund	$726,758	$1,600,000	$1,600,000
Federal funds	+726,758	+1,600,000	+1,600,000
Total	$1,453,516	$3,200,000	$3,200,000

There are approximately 27 facilities that have qualified for the supplemental funding. Approximately 2,000 clients are receiving this enriched programming.

COMMUNITY PROGRAM DEVELOPMENT

We withhold recommendation on establishment of two positions proposed for program development activities pending further review.

The budget proposes the expenditure of $1,607,981 for community program development and special projects in the budget year. The figure consists of (1) $1,007,981 in federal Public Law 94-103 funds available to develop programs as alternatives to institutionalization of the developmentally disabled and (2) $600,000 from the newly established Program Development Fund.

Table 14 shows the estimated current year expenditure to be $2,802,754 from all sources of funding. The current year and budget year data cannot be compared because the current year data includes funds for the area boards on developmental disabilities and the State Council on Developmental Disabilities and the budget year data reflects their costs separately.

The Program Development Fund was established by Chapter 1369, Statutes of 1976 (AB 3805). It provides that effective July 1, 1977, all parental fees collected by the regional centers shall be deposited in a newly created Program Development Fund. The purposes of the fund "shall be to provide resources needed to initiate new programs, consistent with approved priorities for program development in the state plan." The funds shall be allocated by the Department of Health upon approval of the state council.

Examples of programs that might be funded by the Program Development Fund include a small group home or an apartment living project. The funds normally cover start-up costs of a program such as staff, operating expenses and equipment and are not used to purchase land or a building.

The legislation also directed our office to review and comment on the utilization and effectiveness of the Program Development Fund during the annual budget hearings. The fund is not legally established until July 1, 1977. We have been advised by departmental staff that they are working on developing procedures and guidelines for allocation of the funds.

Proposed New Positions for Program Development

The budget proposes the establishment of two social service consultant II positions in the budget year at a cost of approximately $41,000 in Item 241, Department of Health support. The department indicates that the positions are needed in order for the department to comply with legislation establishing the Program Development Fund and mandated program evaluation activities. We are withholding recommendation on the two requested positions pending further review of the activities and assignments of the existing Program Development Section.

STATE COUNCIL AND AREA BOARDS

The budget proposes the expenditure in 1977–78 of $1,618,420 to support the area boards on developmental disabilities and the state council with funds available from federal Public Law 94-103. The amount consists of $578,007 for the State Developmental Disabilities Council and $1,040,413 for the area boards on developmental disabilities as shown in Table 14.

Recently enacted legislation substantially revised the law related to the duties and reponsibilities of the state council and the area boards.

Under the provisions of Chapter 1365, Statutes of 1976, (AB 3801), the State Council on Developmental Disabilities shall be:

1. The official designated agency for the purpose of allocating all federal funds under Public Law 94-103.
2. Responsible for developing the California Developmental Disabilities State Plan established by Chapter 1366, Statutes of 1976, (AB 3802).
3. Responsible for monitoring and evaluating the implementation of the state plan and for reviewing and commenting on other plans and programs in the state affecting persons with developmental disabilities.

Chapter 1365 also provides that no more than 25 percent of the Public Law 94-103 funds received by the state in any one year shall be spent by the state council for its operating costs.

Under the provisions of Chapter 1367, Statutes of 1976, (AB 3803) the area boards on developmental disabilities are responsible for:

1. Protecting and advocating the rights of all persons in the area with developmental disabilities.
2. Conducting public information programs for professional groups and the general public to eliminate barriers to social integration and employment, and participation of persons with developmental disabilities in all community activities.
3. Reviewing the policies and practices of publicly funded agencies that serve persons with developmental disabilities to determine if such programs are meeting their obligations under local, state and federal statute.

Chapter 1367 stipulates that the state council shall allot no more than

45 percent of federal Public Law 94-103 funds in any one year to all area boards.

Department of Health

DIVISION OF SUBSTANCE ABUSE (Office of Narcotics and Drug Abuse)

Item 246 from the General Fund — Budget p. 579

Requested 1977–78	$11,528,872
Estimated 1976–77	12,939,697
Actual 1975–76	11,636,326
Requested decrease $1,410,825 (10.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Governor's Budget states that during 1977–78, the responsibilities and staff of the State Office of Narcotics and Drug Abuse (SONDA) will be merged into the Department of Health, Division of Substance Abuse. The proposed merger will be accomplished through a reorganization plan which will be submitted to the Legislature. The budget narrative indicates that, "This reorganization will integrate the staff and functions of SONDA and the substance abuse division and reduce the duplication of effort and overlapping responsibilities which now exist."

The budget also proposes that 14.5 of the existing 16.5 positions budgeted for SONDA be transferred to the Department of Health. The director and assistant director positions presently in SONDA are not proposed for transfer.

For the past three years, we have recommended that legislation be enacted abolishing the State Office of Narcotics and Drug Abuse and that its personnel and functions be transferred to the Department of Health. The Little Hoover Commission has also recommended that the two units be merged. Although we have not seen the reorganization plan, we recommend the merger of the two offices.

Under the reorganization plan the Department of Health will have responsibility for the administration of the state's Drug Treatment Act (Chapter 1255, Statutes of 1972). The care and treatment of narcotic and drug abusers is a responsibility shared by the state and counties.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The total General Fund support for local drug programs and state administration is projected to be $13,547,320 in the budget year, an increase of $607,623 or 4.7 percent over the estimated current year expenditure of $12,939,697. The $13,547,320 consists of $11,528,872 for local assistance in this item and $2,018,448 for state administration in Item 241, Department of Health support. The total state and federal support for the current and budget years is shown in Table 1.

Table 1
Narcotics and Drug Abuse
State and Federal Expenditures
1976–77 and 1977–78

	Estimated 1976–77	*Proposed 1977–78*	*Difference*	*Percent change*
Local Assistance (Item 246)				
General Fund	$10,876,294	$11,528,872	$+652,578	+6.0%
Federal funds	+12,560,430	+14,223,421	+1,662,991	+13.2
Total	$23,436,724	$25,752,293	$2,315,569	+9.8%
State Administration (Item 241)				
General Fund	$1,706,580	$1,720,534	$13,954	+0.8%
Federal funds	932,368	927,925	−4,443	−0.4
Total	$2,638,948	$2,648,459	$9,511	+0.3%
State Office of Narcotics and Drug Abuse (merged into DOH in 1977–78 in Item 241)				
General Fund	$356,823	$297,914	$−58,909	−16.5%
Federal funds	175,235	163,447	−11,788	−6.7
Total	$532,058	$461,361	$−70,697	−13.3%
Total General Fund	$12,939,697	$13,547,320	$607,623	+4.7%
Total Federal funds	$13,668,033	15,314,793	$+1,646,760	+12.0%
Total Expenditures	$26,607,730	$28,862,113	$2,254,383	+8.5%

The budget proposes a 6 percent cost increase for local programs of $652,578 in the budget year. As shown above, the $652,578 cost increase is included in the $11,528,872 proposed for 1977–78 in Item 246.

Marijuana Impact Report

Last year the Governor's Budget proposed that the Drug Abuse program be reduced by $1,500,000 as a result of the estimated impact of Chapter 248, Statutes of 1975, (SB 95) which substantially reduced penalties for the possession of marijuana. The reduction was based on the assumption that most apprehended marijuana users would no longer be diverted from the judicial system to local treatment programs.

Chapter 248 was effective January 1, 1976. At the time the Legislature was reviewing the Governor's Budget, no data were available to support the prediction that the law would substantially reduce the need for treatment of drug abusers. Thus, the Legislature decided to restore the $1,500,000 to the drug abuse appropriation. Supplemental budget language was also adopted directing the Department of Health and the Department of Justice to report to the Legislature by December 1, 1976, on the effects of the legislation reducing penalties for use of marijuana.

Our office was directed to include a review of the report in the 1977–78 *Analysis of the Budget Bill.* The report was not submitted as of the time this analysis was prepared. We will issue a supplemental analysis following receipt of the report for the budget hearings.

Department of Health

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)

Items 248, 249, 250 and 251
from the General Fund Budget p. 602

Requested 1977–78	$1,261,111,300
Estimated 1976–77	1,090,435,691
Actual 1975–76	902,283,044
Requested increase $170,675,609 (15.7 percent)	
Total recommended reduction	Pending

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	*Analysis page*
248	Medical Care and Assistance	General	$1,088,922,400	518
249	Fiscal Intermediaries	General	24,399,100	523
250	County Administration	General	90,989,800	533
251	Hospital Cost Containment Lawsuit	General	56,800,000	526
			$1,261,111,300	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. May Revised Estimates. Withhold recommendation pending review of the May revised caseload estimates and their impact on Medi-Cal program costs. 518
2. Fiscal Intermediaries. Withhold recommendation pending receipt of workload data as part of May revised estimates. 523
3. Fiscal Intermediaries. Recommend department implement BEOMB system which complies with federal requirements. 524
4. Prepaid Health Plans. Recommend that the Departments of Health and Finance, in conjunction with the May revised estimates, provide the fiscal committees with information which supports budget projections. 525
5. General Fund Loans. Recommend that Department of Health institute measures which insure timely receipt of county funds owed Medi-Cal program. 526
6. Delay in Payment of Rate Increases. Recommend action be taken to insure rate increases to Medi-Cal providers which are funded be paid effective July 1, 1977. 529
7. Hospital Cost Appeals. Reduce Item 241 by $39,744 General Fund. 530
8. MIO Contract Monitoring. Withhold recommendation on nine positions pending receipt of further information. 532
9. Internal Security Unit. Reduce Item 241 by $70,020 General Fund. Recommend termination of 3.5 positions established in current year and denial of request for continuing posi- 532

tions in budget year.

10. County Administration. Withhold recommendation on County Administrative Cost Control program pending receipt of additional data. 533
11. Administration of Medi-Cal Program. Recommend creation of separate department to administer Medi-Cal. 535

GENERAL PROGRAM STATEMENT

The California Medical Assistance program (Medi-Cal) is a joint federal-state program authorized by Title XIX of the Social Security Act. The program began on March 1, 1966 following the enactment of Chapter 4, Statutes of 1965, Second Extraordinary Session.

The Medi-Cal program provides and pays for health care services to eligible persons who cannot pay the full cost of medical care. It provides medical assistance to families with dependent children, to aged, blind and disabled individuals, and to other residents whose income and resources are either insufficient to meet the cost of medical care or are so limited that full payment toward the cost of such care would jeopardize future minimum self-maintenance and security.

Medi-Cal Reform Program

The Medi-Cal Reform program (MRP) became effective October 1, 1971, following the enactment of Chapter 577, Statutes of 1971. Under MRP, significant changes in the Medi-Cal program were made in the areas of eligibility, scope of benefits and prior authorization, and county participation in program funding.

Eligibility was expanded to cover medically needy children and adults under age 65 who are not eligible for categorical welfare programs. This group, termed medically indigent, had been the responsibility of the individual counties.

There are now four groups of eligibles: (1) public assistance recipients receiving a cash grant; (2) medically needy only (MNO) persons who meet the requirements of one of the four welfare categories but who have sufficient funds to meet daily needs and therefore do not receive a cash grant payment; (3) medically indigent children under age 21 who reside with their families, who are medically needy on the basis of their income and resources; and (4) medically indigent adults ages 21 to 65 and ceremonially married persons under age 21 who are financially unable to purchase necessary health care.

All eligible persons are entitled to receive Title XIX services provided by physicians, dentists, hospitals, nursing homes, and various other providers. Such services are provided according to a single schedule of benefits and are subject to utilization controls determined to be appropriate by the Director of Health. Such controls include prior authorization, post service prepayment audit, post service postpayment audit, and limitations on the number of services.

Table 1
Medi-Cal Program Expenditures by Source of Fund
1966–67 to 1977–78

Fiscal Year	*Federal funds*	*Percent of total*	*County funds*	*Percent of total*	*General Fund*	*Percent of Total*	*Total program*
1966–67 (16 Mos.)	$423,259,897	42.8%	$248,551,734	25.1%	$317,831,853	32.1%	$989,643,484
1967–68	287,599,365	40.7	210,495,556	29.8	208,086,833	29.5	706,181,754
1968–69	400,919,296	42.6	214,354,302	22.8	325,375,195	34.6	940,648,793
1969–70	509,826,800	45.6	216,260,843	19.3	392,917,016	35.1	1,119,004,549
1970–71	553,292,023	44.0	214,906,441	17.1	489,797,959	38.9	1,257,996,423
1971–72	601,233,594	44.5	241,260,000	17.8	509,240,952	37.7	1,351,734,546
1972–73	631,476,354	43.7	250,531,649	17.4	561,573,257	38.9	1,443,581,260
1973–74	770,323,530	44.4	269,247,277	15.5	695,177,934	40.1	1,734,748,741
1974–75	851,495,882	42.7	296,826,395	14.9	847,184,751	42.4	1,995,507,028
1975–76	965,642,361	43.3	328,490,632	14.7	935,722,459	42.0	2,229,855,452
1976–77 [a]	1,134,183,871	42.7	363,199,422	13.6	1,161,707,001	43.7	2,659,090,294
1977–78 [a, b]	1,322,258,242	42.5	399,519,300	12.9	1,386,944,331	44.6	3,108,721,873

[a] Estimated expenditures based on Governor's Budget.
[b] Includes transfers from Item 253 for price and provider rate increases.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

Funding of Medi-Cal under MRP

County participation in the funding of Medi-Cal under MRP is specified in law and is adjusted each year by the percentage change in the modified assessed valuation for each county. Federal matching funds are available for all portions of the program except the costs for medically indigent adults which are shared by the state and the counties. County, federal and state funds are deposited in the Health Care Deposit Fund from which all payments for Medi-Cal program costs are made.

Table 1 shows total Medi-Cal program expenditures by source of funds from the inception of the program. The proportion of General Fund support has increased substantially since the program's inception. In the 1967–68 fiscal year the state provided 29.5 percent of the program funds whereas for the budget year it is projected that the state will provide 44.6 percent. Conversely the proportion of county support has dropped from a high of 29.8 percent in 1967–68 to 12.9 percent projected in the 1977–78 fiscal year. Federal participation has stayed constant through the years.

Table 2 shows growth in the Medi-Cal program since 1967–68 both by General Fund and total funds. The growth in General Fund support of the Medi-Cal Program has been consistant and substantial. Excluding two years when federal wage and price controls were in effect, the average percentage increase since the program's inception has been 25.1 percent. Increases of this magnitude will ultimately force the reduction of other programs or result in a future tax increase. As can be seen in Table 3, the Medi-Cal General Fund support is projected to be 11.7 percent of all the General Fund expenditures in the 1977–78 fiscal year.

Table 2

Growth of Medi-Cal Program
1967–68 to 1977–78

Fiscal Year	*General Fund (000)*	*Percent increase from prior year*	*Total funds (000)*	*Percent increase from prior year*
1967–68	$208.1	NA	$706.2	NA
1968–69	325.4	+56.4%	940.6	+33.2%
1969–70	392.9	+20.7	1,119.0	+19.0
1970–71	489.8	+24.7	1,258.0	+12.4
1971–72 [a]	509.2	+4.0	1,351.7	+7.4
1972–73 [a]	561.6	+10.3	1,443.6	+6.8
1973–74	695.2	+23.8	1,734.7	+20.2
1974–75	847.2	+21.9	1,995.5	+15.0
1975–76	935.7	+10.4	2,229.8	+11.7
1976–77	1,161.7	+24.2	2,659.1	+19.3
1977–78	1,386.9	+19.4	3,108.7	+16.9
Total Percent Increase (From 1967–68)		+560.5%		+340.2%

[a] Federal wage and price controls in effect.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

Table 3

General Fund Medi-Cal Expenditures as Percentage of Total General Fund Expenditures

Fiscal Year	*Percent*
1972–73	10.00%
1973–74	9.52
1974–75	10.15
1975–76	9.83
1976–77 (est.)	10.67
1977–78 (est.)	11.70

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending receipt and review of the May revised caseload estimates to determine their impact on Medi-Cal program cost and caseload.

The budget proposes direct General Fund support for the Medi-Cal program in the amount of $1,310,460,600. This is an increase of $220,024,-909, or 20.2 percent, more than the amount estimated to be expended in the current year. These amounts include the appropriations contained in

Table 4

Total Medi-Cal Costs by Type of Service

HEALTH BENEFITS	*Actual 1975–76*	*Estimated 1976–77*	*Budgeted 1977–78*	*Percentage Increase From 1977–78*
Professional Services	$485,475,828	$622,460,600	$745,232,200	+19.7%
Prescription Drugs	129,349,989	147,987,900	173,427,100	+17.2
Hospital Inpatient	677,570,885	789,589,200	919,313,200 [b]	+16.4
Nursing Homes and Intermediate Care	369,712,756	428,115,000	506,802,300	+18.4
State Hospitals	100,065,048	101,500,000	119,000,000	+17.2
Other Services	26,143,473	30,601,600	37,029,200	+20.9
Prepaid Health Plans	90,570,816	75,689,200	85,300,300	+12.7
Pilot Projects:				
On Lok	—	291,000	335,500	+15.3
Redwood	18,291,341	21,778,000	48,073,300	+120.6
San Joaquin	69,000	—	—	NA
CDS	78,127,086	102,223,500	115,034,400	+12.5
Short-Doyle	35,059,924	75,054,300	79,557,500	+5.9
Title XVIII B Buy-In	44,384,709	47,341,100	50,261,300	+5.9
Child Health Disability Prevention Program	—	3,913,655	7,283,748	+87.2
Adjustments [a]	3,482,133	9,365,074	—	NA
Totals, Health Benefits	$2,058,302,988	$2,455,910,129	$2,886,650,048	+17.5%
ADMINISTRATION				
State Support:				
Department of Benefit Payments	$3,560,000	$5,333,260	$5,695,415	+6.8%
Department of Health	29,673,120	38,294,905	42,000,910	+9.7
Fiscal Intermediary	36,143,831	41,435,300	45,183,600	+9.0
County Administration	102,082,463	118,116,700	129,191,900	+9.4
Totals, Administration	$171,459,414	$203,180,165	$222,071,825	+9.3
TOTALS, MEDI-CAL	$2,229,762,402	$2,659,090,294	$3,108,721,873	+16.9%

[a] Includes audit adjustments, abatements, prorata charges, lawsuits and Board of Control Claims.
[b] Includes Hospital Cost Containment Lawsuit.

Items 248, 249, 250, and 251 as well as the prorated amount for Medi-Cal rate increases from Item 253. Excluded are General Fund transfers from other items which also support the Medi-Cal program. Total General Fund support for Medi-Cal is shown in Table 7.

In addition to General Fund support, the budget shows other funds (federal and county) to bring total program expenditures to $3,108,721,-873. This is an increase of $449,631,579, or 16.9 percent, above the total expenditures estimated for the current year. Table 4 shows total Medi-Cal costs by type of service and by type of administrative cost.

Table 5 shows the average monthly Medi-Cal caseload as presented in the Governor's Budget. Total caseload is estimated to increase by 4.2 percent in the current year and by 2.7 percent in the budget year.

Table 5
Average Monthly Medi-Cal Caseload

	1975–76 Actual	*1976–77 Estimated*	*1977–78 Estimated*
TOTALS (Medi-Cal)	2,627,683	2,738,900	2,811,400
PUBLIC ASSISTANCE	2,179,622	2,219,000	2,228,800
Aged	342,566	335,800	340,800
Blind	13,394	16,500	18,800
Disabled	322,579	341,400	365,600
Families	1,501,083	1,525,300	1,503,600
MEDICALLY NEEDY [a]	201,943	246,700	275,000
Aged	53,678	55,100	53,400
Blind	762	600	400
Disabled	15,154	16,200	16,700
Families	132,349	174,800	204,500
MEDICALLY INDIGENT	234,843	273,200 [b]	307,600 [b]
Children	65,565	73,700	80,000
Adult	169,278	199,500	227,600
OTHER (renal dialysis, refugees, etc.)	11,275	—	—

[a] Includes Medically Needy, Long-Term and Refused Grant.
[b] Includes estimated caseload increase resulting from Medi-Cal Eligibility Simplification System (MESS).

1976–77 Fiscal Year Budget

A review of the Governor's Budget for current year Medi-Cal expenditures shows that five deficiency appropriations are proposed totaling $37,-570,142 from the General Fund. These result from: (1) budgeting fiscal intermediary services at 75 percent federal reimbursement while it now appears that such services will receive only 50 percent federal reimbursement ($6,590,200); (2) the anticipation of a negotiated settlement of a long standing lawsuit between San Diego County and the Department of Health concerning San Diego's county contribution to the Medi-Cal program ($7,546,091); (3) additional funds necessary for hospital reimbursement charges as a result of a successful lawsuit brought by the California Hospital Association against the department's hospital cost containment program ($16,114,700). This lawsuit and its implications are fully discussed on page 526 of the Analysis; and (4) various unbudgeted cost increases in the medical care and services portion of the program ($7,319,151).

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

The estimated deficiencies in the program for the current year are partially offset by proposed General Fund savings of $9,768,000. Current year savings are primarily due to an unexpended balance of the appropriation made by Chapter 1207, Statutes of 1976, (AB 4242) for physician rate increases.

Table 6 summarizes the reconciliation with appropriations for General Fund support of the Medi-Cal program for fiscal years 1975–76, 1976–77 and 1977–78.

Table 6
Direct State Support for Medi-Cal
(General Fund)

	1975–76 Actual	*1976–77 Estimated*	*1977–78 Budgeted*
Budget Act Appropriation (Medical Assistance Program)	$767,553,211	$863,796,500	$1,088,922,400
Budget Act Appropriation (Fiscal Intermediary)	17,588,689	17,284,800	24,399,100
Budget Act Appropriation (County Administration)	66,390,918	82,823,700	90,989,800
Budget Act Appropriation (Rate Increases)	57,043,500	46,646,549	49,349,300
Budget Act Appropriation (Hospital Cost Containment Lawsuit)	—	—	56,800,000
Chapter 1207, Statutes of 1976 (Physician Services)	—	51,953,000	—
Chapter 1202, Statutes of 1976 (Nursing Assistants)	—	1,138,000	—
Chapter 1236, Statutes of 1976 (Developmentally Disabled)	—	61,000	—
Chapter 903, Statutes of 1975 (San Joaquin Foundation)	69,000	—	—
Chapter 958, Statutes of 1975 (Medi-Cal Dentures)	2,000,000	—	—
Allocation from Emergency Fund	9,118,611	—	—
Proposed Deficiency Appropriation (Fiscal Intermediary)	—	5,090,200	—
Proposed Deficiency Appropriation (San Diego Lawsuit)	—	7,546,091	—
Proposed Deficiency Appropriation (Hospital Cost Containment Lawsuit)	—	16,114,700	—
Proposed Deficiency Appropriation (Medical Assistance Program)	—	7,319,151	—
Prior Year Balances Available	430,000	430,000	—
Totals Available	$920,193,929	$1,100,203,691	$1,310,460,600
Balance Available in Subsequent Years	−430,000	—	—
Unexpended Balance, Estimated Savings	−17,480,885	−9,768,000	—
Totals, Expenditures	$902,283,044	$1,090,435,691	$1,310,460,600

1977–78 Fiscal Year

Items 248, 249, 250 and 251 and provider rate increases from Item 253 propose General Fund support for the Medi-Cal program in the budget year of $1,310,460,600, which is an increase of $220,024,909, or 20.2 percent, above the current year estimate. These items, however, do not constitute the entire General Fund support for the Medi-Cal program. Excluded are transfers from other programs and the administrative support for Medi-Cal in the Departments of Health and Benefit Payments. As shown in Table 7, when these amounts are added, total General Fund support for the Medi-Cal program is proposed at $1,386,944,331, or 19.4 percent, above current year estimates.

Table 7
Total State Support for Medi-Cal
(General Fund)
1976–77 and 1977–78

	1976–77 Estimated	*1977–78 Budgeted*
Appropriations from General Fund (direct support)	$1,090,435,691	$1,310,460,600
Transfer from Department of Health—Administration	17,761,962	19,988,099
Transfer from local mental health	46,421,500	49,215,000
Transfer from alcoholism program	920,100	300,000
Transfer from developmental disabilities program	1,550,800	1,680,000
Transfer from Department of Benefit Payments	1,826,628	3,018,568
Transfer from child health disability program	1,303,413	2,282,064
Total, State Funds	$1,161,220,094	$1,386,944,331

Budget Assumptions for 1977–78

Following is a summary of our comments regarding the assumptions utilized by the Departments of Health and Finance in preparing the 1977–78 budget for the Medi-Cal program. These assumptions are listed on pages 602 and 603 of the Governor's Budget. The italicized phrases correspond to the assumptions listed in the Governor's Budget.

1. *The Prepaid Health Program will have an overall average monthly enrollment of 183,500 for fiscal year 1977–78.* At the time this analysis is written the basis for this assumption is questionable. Federal legislation (PL 94-460) which became effective on October 8, 1976, is anticipated to have a far reaching effect on the PHP program. This legislation requires PHPs to meet specific criteria as a condition of federal financial participation. It is estimated that only a small number of the 26 existing PHPs will be able to meet such criteria as they are presently constituted. Therefore, the average monthly enrollment in the budget year is contingent upon the ability of existing plans to meet federal qualification or reconstitute as a qualified plan.

More information is necessary to evaluate this program along with the May revised estimates.

2. *County Administration Cost Containment implemented in July 1976 will be continued throughout the 1977–78 fiscal year.* This is a logical assumption and one we would support. A complete discussion of the county cost containment program is found on page 533 of the *Analysis.*

3. *The County of San Diego vs. Vandegrift lawsuit will be settled by stipulated judgment between the county and the state. Although final settlement has not been resolved, a deficiency appropriation which is estimated at $7,546,091 will be requested.* This appears to be a valid assumption. We have been informed by the Department of Health and the Attorney General that a settlement in this case will be forthcoming. The

proposed deficiency is for the current year and will be handled by separate legislation once a final settlement has been agreed to.

4. *County participation in the cost of the program as prescribed by Section 14150 of the Welfare and Institutions Code, will increase by 10 percent over the 1976–77 level due to estimated increases in the counties' modified assessed value.* This is a reasonable assumption regarding growth in assessed valuation. This will increase county participation from $363,199,422 in the 1976–77 fiscal year to $399,519,300 in the budget year.

5. *The Medi-Cal Program estimate reflects no change in provider rates for 1977–78. Adjustments to rates will be in accordance with the funding reflected in Item 253.* Funding for rate increases for all programs administered by the Department of Health is contained in Item 253. Of the $52,611,649 contained in that item, $49,349,300 is proposed to be transferred to the Medi-Cal program. A full discussion of the budget year rate increase proposal is found in our analysis of Item 253.

6. *Fifty percent Federal financial participation will be received in 1977–78 for EDP claims payment costs.* This is a reasonable assumption in light of the fact that for the past two fiscal years (1975–76 and 1976–77) the appropriation for the fiscal intermediaries has had to be augmented by deficiency appropriations because the initial appropriations assumed 75 percent federal funding. Such funding is available if states will comply with specific federal regulations. California has not complied with the regulations as discussed hereafter and therefore federal funding has been limited to 50 percent participation. The proposed 1977–78 appropriation for fiscal intermediary services recognizes reality.

7. *The budget reflects a current year General Fund cost of the California Hospital Association vs. Obledo lawsuit. The estimate of retroactive payments to those hospitals which have received tentative cost settlements and payments for December 1976 and January 1977 actual costs are $4,900,000 General Fund. A proposed deficiency appropriation of $16,114,700 is reflected within the Medical Assistance Program to reimburse hospitals without applying cost containment from February 1 to June 30, 1977 in the event that the state's request for a stay pending appeal is denied. If the state is not successful in requesting a stay . . . and fails in its attempt to implement an alternative cost containment system, an increase of $56,800,000 will be required in 1977–78. This expenditure is reflected in Item 251.* This assumption, together with its implications, is discussed in our analysis of Item 251 on page 526.

Administration of the Medi-Cal Program

Under the supervision of the Secretary for Health and Welfare, the Departments of Health and Benefit Payments are responsible for the administration of the Medi-Cal program. County welfare or public health departments, subject to the supervision and regulations of the Department of Health, are responsible for receiving and processing applications for Medi-Cal eligibility for the medically needy and medically indigent. Effective January 1, 1974, California contracted with the federal government to perform Medi-Cal eligibility determination for aged, blind and disabled recipients under the SSI/SSP program.

After eligibility has been determined, all provider claims are processed by the fiscal intermediaries—Blue Cross North, Blue Cross South, and Blue Shield—which have joined together to form the Medi-Cal Intermediary Operations (MIO) organization.

Table 8 shows total administrative costs for the Medi-Cal program for fiscal years 1975–76, 1976–77 and 1977–78.

Table 8

Estimated Total Medi-Cal Cost for Administration From the Health Care Deposit Fund

	1975–76 Actual	*1976–77 Estimated*	*1977–78 Budgeted*
Administrative support for:			
Department of Health	$31,410,870	$38,294,905	$42,000,910
Department of Benefit Payments	3,560,000	5,333,260	5,695,415
Total State	$34,970,870	$43,628,165	$47,696,325
Fiscal Intermediary	36,143,831	41,435,300	45,183,600
County Administration	102,082,463	118,116,700	129,191,900
Total	$173,197,164	$203,180,165	$222,071,825

State Administration (Item 241)

The budget proposes total administrative support for Medi-Cal related activities in the Department of Health of $42,000,910. Of this amount, $19,989,099 is from the General Fund. The total amount is $3,706,005, or 9.7 percent, above the amount estimated to be expended in the current year. The amount shown in Table 8 as administrative support for the Department of Benefit Payments is discussed under Item 261.

Fiscal Intermediaries (Item 249)

We withhold recommendation pending receipt of workload data as part of the May revised estimates.

At the inception of the Medi-Cal program, three fiscal intermediaries, Blue Cross North, Blue Cross South and Blue Shield, acting under separate contracts, processed and paid all claims submitted by providers of service to Medi-Cal eligibles. In 1972 the three intermediaries joined together in an organization called Medi-Cal Intermediary Operations (MIO) for the purpose of processing Medi-Cal claims. All claims under the regular fee-for-service Medi-Cal program are processed by MIO.

Current Year Estimate for Fiscal Intermediaries

The Governor's Budget proposes a deficiency appropriation of $5,090,200 from the General Fund for the support of the fiscal intermediaries in the 1976–77 fiscal year. This deficiency appropriation is necessary because federal participation in the funding of the costs of claims processing is not being increased from 50 percent to 75 percent as had been assumed when the 1976–77 budget was passed. Separate legislative hearings on this subject will be held following the introduction of the deficiency appropriation bill.

Budget Year Estimate for Fiscal Intermediaries

We recommend that the department develop a Beneficiary Explanation of Medical Benefits (BEOMB) system which complies with federal requirements.

The budget proposes total support for the support of the fiscal intermediaries of $45,183,600. This is an increase of $3,748,300, or 9.0 percent, above the current year amount. The General Fund amount is proposed to increase from $22,375,000 to $24,399,100, or 9.0 percent. These comparisons include the proposed deficiency appropriation in the current year.

The deficiency appropriation of $5,090,200 for 1976–77, and a $4.6 million deficiency appropriation in 1975–76, are the result of having based the budget for fiscal intermediary services on the assumption that federal financial participation would be 75 percent of total costs for such services. The 1977–78 budget for fiscal intermediary services is based on the assumption that federal participation will continue at the 50 percent level.

Federal funding, however, has remained at 50 percent because the state has not fully complied with the provision of Public Law 92-603 (HR 1) which provides an additional 25 percent federal participation if states will institute the Beneficiary Explanation of Medical Benefits (BEOMB) program. The BEOMB program is an attempt to detect provider fraud or misuse in the Medicaid program by having a statement mailed to each recipient after a medical service has been provided and the provider reimbursed for such service. In effect, the state has an option of complying or not complying with a specific provision of federal law. Noncompliance will result in a General Fund cost for the 1977–78 fiscal year of approximately $5 million. Noncompliance has already cost the General Fund approximately $9.6 million.

The administration has chosen not to implement the BEOMB program based on its belief that such a program constitutes a potential invasion of privacy and is in conflict with statutes relative to the confidentiality of medical records. The BEOMB statement would be enclosed in the envelope containing the Medi-Cal eligibility cards which are sent to each eligible individual or family on the first of each month. As an example, the envelope containing a family's eligibility cards for the month of April would contain a statement of services provided in January. The statement would contain the name of the provider, date of service, fee charged and amount paid for each service provided to each family member.

The administration states it has pursued alternatives to the BEOMB program, but federal officials have to date refused to permit additional funding because the letter of the law has not been complied with.

The concern expressed by the administration in regard to confidentiality is that a member of a family may receive medical care, such as an abortion or psychiatric treatment, and not wish other members of the family to know.

There may be some types of medical care received by family members which should not be included on a statement. On the other hand, provider fraud has been extensively reported nationally during the past year. The

BEOMB program is intended to curtail such abuse. It seems to us that the department, with direction from the Governor's Office, should more actively pursue the development of a system which would conform to federal requirements.

An annual General Fund cost of $5 million seems a high price to pay for this issue. We recommend the department develop a BEOMB system that complies with federal requirements or report to the fiscal committees why an automated reporting system cannot be developed which might exclude specific procedures and still meet federal requirements.

Workload for the fiscal intermediaries is determined by the number of claims processed in a fiscal year. The budget document does not contain workload data for the intermediaries. Such data should be part of the May revised estimates package. Therefore, we are withholding recommendation on the funding of this item until such data are received and evaluated.

Prepaid Health Plans (PHPs)

We recommend that the Departments of Health and Finance, in conjunction with the May revised estimates, provide the fiscal committees with detailed information relative to the program budget projections for the Prepaid Health program.

A prepaid health plan (PHP) is any association of providers of medical and health services who agree with the Department of Health to furnish such services to Medi-Cal beneficiaries on a predetermined periodic rate basis. Statutes adopted in 1971 encouraged the administrators of Medi-Cal, to the extent feasible, to provide health care to Medi-Cal recipients through a system of Prepaid Health Plans.

In the past year, the PHP program has been subject of much controversy, with close scrutiny being given to it by state and federal officials, the Legislature, the press and others. As a result, some plans have gone out of business and others have not had their contracts renewed.

In addition, federal legislation effective October 8, 1976, (Public Law 94-460) requires all PHPs to be federally designated as health maintenance organizations by the renewal date of their contract or October 8, 1977 whichever occurs first. Because the new federal requirements are substantially different from previous requirements, it is anticipated that most existing PHPs will be ineligible for federal funding as they are presently constituted. It is hoped that such plans will reconstitute and be deemed federally eligible, but the extent to which this will take place is unknown at this time.

Neither the Department of Health nor the Department of Finance is able to provide documentation for the proposed level of support for the PHP program which appears in the Governor's Budget. Total expenditures for the program of $89,636,880 are projected for 1977–78.

Because of the uncertainty surrounding the program and the lack of data to justify proposed expenditures, we recommend that the Departments of Health and Finance present data to the fiscal committees in conjunction with the May revised estimates which will clearly identify the level at which the PHP program should be supported.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

Hospital Cost Containment Lawsuit (Item 251)

The budget proposes an appropriation of $56,800,000 to be transferred to the Medi-Cal program in the event that the state is unsuccessful in its appeal of the judgment issued by U.S. District Court in the *California Hospital Association vs. Obledo et al.* lawsuit. In addition, the budget proposes a deficiency appropriation of $16,114,700 from the General Fund in the current year for this same purpose.

Since July 1, 1975, the Department of Health, pursuant to a waiver granted by the U.S. Department of Health, Education, and Welfare, has reimbursed hospitals for inpatient services provided to Medi-Cal recipients on the basis of a fixed percentage increase from the prior year. This plan was imposed in an effort to contain hospital costs which, prior to July 1, 1975, had been reimbursed on the basis of "reasonable" (actual) cost.

The California Hospital Association (CHA) challenged the department's cost containment program in U.S. District Court, which found in CHA's favor on November 11, 1976. The court's judgment held that the amendments to Title 22 of the California Administrative Code which implemented cost containment were invalid. In addition, the judgment enjoined the U.S. Department of Health, Education, and Welfare from approving any amendment to the California State Plan which imposes a set percentage limit on the amount of cost increases sustained by hospitals.

The state has appealed the court's decision, but it is estimated that the appeal process can take up to two years before a final decision is obtained. The Department of Health has therefore requested a stay of judgment pending appeal and anticipates a decision on the stay by February of 1977. The Attorney General has advised the department to comply with the judgment pending a decision on the application for a stay. This includes making adjustment payments to hospitals which have received cost settlements. General Fund expenditures of $4,900,000 in budgeted current year funds have been expended for this purpose.

If the stay pending appeal is denied, the Department of Health will be required to continue to reimburse at "reasonable" (actual) cost without cost containment from February 1 to June 30, 1977. Such costs are estimated to be $16,114,700 and a current year deficiency appropriation from the General Fund in this amount is proposed for this contingency.

If the state is not successful in obtaining a stay of judgment pending appeal and fails in its attempt to implement an alternative cost containment program, an increase of $56,800,000 is estimated to be required in 1977–78. Item 251 of the Budget Bill proposes an appropriation of this amount to be transferred to the Medi-Cal program in the event of this contingency.

General Fund Loans

We recommend that the Department of Health institute measures which assure the more timely receipt of county funds owed to the Medi-Cal program.

The Medi-Cal Reform program (MRP) specified the amount of each county's participation in the funding for the costs of the entire Medi-Cal program in the 1971–72 base year. These base year amounts are adjusted by the percentage change in modified assessed value for each county, in subsequent years. County shares in the funding of the program have grown from $241,260,000 in the base year to an estimated $399,519,300 in the budget year. The law requires that counties pay their shares to the state on a monthly basis.

In the past, counties that operate county hospitals have not forwarded their shares to the state in a timely manner. Payments due to the counties for services provided to Medi-Cal beneficiaries were used to offset the amounts owed to the state, but many counties were nevertheless unable to offset their entire shares on a monthly basis and became delinquent in the amounts owed to the state. Consequently, it became necessary to use state and federal funds to pay a portion of the counties' share of all Medi-Cal program costs. Language in the 1974 Budget Act prohibited the use of General Fund appropriations for this purpose. Presently, the Health Care Deposit Fund borrows funds from the General Fund in order to pay Medi-Cal program costs.

Delay in the advancement of federal funds required an increase in the amount of the loans from the General Fund. However, this problem has been significantly reduced by the development of a more accurate method for estimating the needed advance of federal funds.

During the 1974–75 fiscal year a maximum loan of $100 million was authorized. Of that amount, $98 million was borrowed and no repayment was made in that fiscal year. The loan was repaid in the 1975–76 fiscal year. Loans not to exceed $134 million were authorized for the 1975–76 fiscal year.

The total county shares for the 1975–76 fiscal year were $328.5 million. The total monthly share of this annual amount averaged $27.4 million. If, for example, this $27.4 million was going to be received a month after the due date, the Health Care Deposit Fund would obtain a $27.4 million loan from the General Fund for one month in order to pay costs owed to Medi-Cal providers. Table 9 indicates that the period of county share delinquency during the 1975–76 fiscal year often averaged two to three months. Although the delinquency period was reduced to less than two months at the end of the 1975–76 fiscal year when the loan balance was $46.7 million, the remaining balance owed to the General Fund was not paid until five months into the 1976–77 fiscal year.

When there is a loan from the General Fund to the Health Care Deposit Fund the state loses the interest it would have otherwise earned if the borrowed funds had been invested rather than expended in order to pay Medi-Cal providers. We estimate that the state General Fund has lost $9.9 million in interest since the 1974–75 fiscal year due to this procedure. However, it should be noted that county shares received by the Health Care Deposit Fund do accrue interest until these funds are expended for Medi-Cal program costs. Because these funds are expended soon after receipt, however, the accrued interest is minor in comparison to the lost General Fund interest.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

Table 9
Health Care Deposit Fund
Loans from General Fund
1975–76 and 1976–77
(Millions)

Month	*Amount Borrowed*	*Amount Repaid*	*Balance*
July 1975	—	—	—
August	—	—	—
September	—	—	—
October	$15.2	—	$15.2
November	33.6	—	48.8
December	28.2	—	77.0
January 1976	65.0	$47.9	94.1
February	22.4	13.7	102.8
March	13.0	8.3	107.5
April	30.0	41.7	95.8
May	5.1	46.3	54.6
June	80.1	88.0	46.7
July 1976	—	—	46.7
August	19.6	11.7 [a]	54.6
September	24.6	8.3 [a]	70.9
October	7.1	5.7 [a]	72.3
November	40.9	72.3 [a]	40.9
December	35.8	40.9	35.8

[a] Indicates an amount repaid for a 1975–76 loan. $21.0 million of the $72.3 million repaid in November 1976 was for a 1975–76 loan.

The issue of timely payment is one which has affected both the department and the counties. In the past, there have been instances where there were delays in payment from the department to the counties for Medi-Cal services and other programs, such as Short-Doyle. In order to reduce the delays by both the department and the counties, the department has increasingly used the practice of offsetting the amount owed to a county for services provided against the county's share due the Health Care Deposit Fund. Although the data in Table 9 indicates a reduction in the delinquency period for the last few months, it is uncertain whether this will continue. Therefore, we recommend that the department develop and establish a fiscal system which will assure the timely receipt of county funds pursuant to law.

Provider Rate Increases for Medi-Cal (from Item 253)

The Governor's Budget proposes to grant all nonphysician providers of health care services in the Medi-Cal program a 6 percent increase in the rates they receive from the program. Item 253 contains $49,349,300 from the General Fund for this purpose. Table 10 details the General Fund amounts for rate increases by the various service categories in the Medi-Cal program.

In addition to the General Fund amount contained in Item 253, $37,966,300 in federal matching funds is estimated to be generated which will make a total of $87,315,600 available to nonphysician Medi-Cal providers for rate increases.

Item 253 proposes to give all nonphysician Medi-Cal providers except

Table 10
Proposed 1977–78 Rate Increases for Medi-Cal Providers
(General Fund)

Service Category	*Amount*	*Subtotal*
Professional		
Physicians	—	$7,198,500
Other Medical	$2,779,100	
County Outpatient	1,242,200	
Community Outpatient	3,177,200	
Drugs		2,012,500
Hospital Inpatient		17,831,500
County Inpatient	6,076,300	
Community Inpatient	11,755,200	
Skilled Nursing Facilities (SNF) and Intermediate Care Facilities (ICF)		13,776,100
SNF	13,421,600	
ICF	354,500	
Other Services		958,500
Home Health	58,500	
Medical Transportation	440,800	
Other	459,200	
Dental		3,535,700
Pilot Projects		1,622,300
Redwood	2,612,800	
On Lok	9,500	
Prepaid Health Plans		2,414,200
Total		$49,349,300

hospitals a 6 percent increase in rates. For hospital inpatient providers the increase in Item 253 is proposed at 7.7 percent. This is the amount proposed under the department's hospital cost containment program. This program was found to be invalid by a federal court in November 1976, and unless the state is successful in having this decision reversed, hospitals will be reimbursed at actual costs. The budget contains funds for this contingency in Item 251. A full discussion of Item 251 is found on page 526 of the Analysis.

The budget proposes no rate increase for physicians because of the substantial increase provided during the current year. Effective September 22, 1976, as the result of the enactment of Chapter 1207, Statutes of 1976, (AB 4242) physician providers in the Medi-Cal program were granted rate increases averaging 19.7 percent at an estimated total current year cost of $51,759,200, $29,689,077 of which is from the General Fund. The full-year cost of this increase has been incorporated into the 1977–78 budget base at a total cost of $91,500,000.

Delay in Payment of Rate Increases

We recommend that appropriate legislative and/or administrative action be taken to insure that rate increases to Medi-Cal providers which are funded in the Budget Act be paid to such providers effective July 1, 1977.

The Budget Act of 1976, and previous Budget Acts, appropriated funds which were to be used for the purpose of increasing the rates paid by the state to medical providers of service in the Medi-Cal program. The amounts included in the various Budget Acts were arrived at on the basis of a full-year cost of the rate increase.

The law specifies, however, that rate increases may not be granted until regulations are formulated, after public hearings, and are promulgated by the Department of Health. This has led to substantial delay in the time between the passage of the Budget Act and the effective date of the rate increase. For example, rate increases for numerous providers funded by the Budget Act of 1976 were not effective until November 1, 1976 due to the lengthy regulation process. This results in providers receiving a rate increase for less than a full fiscal year with the unexpended funds which had been budgeted for rate increases reverting to the General Fund at the end of the year.

At the time this Analysis is written, it is not entirely clear whether this problem can be solved by appropriate Budget Act language or if separate legislation and/or administrative action is necessary. This should be corrected and, therefore, we recommend that appropriate legislative and/or administrative action be taken to insure that rate increases become effective July 1, 1977, when the funds appropriated by the Budget Act become available for expenditure.

Proposed Staffing Changes

The Governor's Budget proposes several staffing changes for the Medi-Cal program. All involve positions which were added administratively during the current year and are proposed to continue in the budget year.

These proposed changes are discussed together with our recommendations in the following three sections.

1. *Medi-Cal Benefit.* Addition of one consulting pharmacist III in the Medi-Cal Benefits Section. We recommend approval of this position.

This position was added during the current year and is proposed to continue in the budget year. The position was added to take full advantage of the savings potential of the Medi-Cal Maximum Allowable Ingredient Cost (MAIC) program. This program was established for the purpose of minimizing inappropriate expenditures for pharmaceuticals by setting price ceilings for the ingredient cost of drugs provided to Medi-Cal recipients.

Because the MAIC program can lead to savings in the Medi-Cal program if constantly updated, we feel that this position is justified on a cost-effectiveness basis.

2. *Position Transfer.* Tranfer of 62 positions from Medi-Cal Field Services Section to Facilities Licensing Section. We recommend approval of this transfer.

This internal transfer would effect a recommendation made by our office and others and will result in more efficient coordination of patient and quality review with respect to skilled nursing facilities and intermediate care facilities.

3. *Hospital Cost Appeals.* Addition of three positions in the Fiscal Intermediary Section for hospital cost appeals.

We recommend deletion of three positions for current year savings of $48,115 ($25,982 General Fund) and budget year savings of $72,731 ($39,-

774 General Fund) in Item 241.

A total of three positions, one staff services manager II, one associate government program analyst, and one senior clerk typist, were added during the current year and are proposed to be continued in the budget year. The justification for these positions was the establishment of an appeals procedure in the department whereby hospitals could appeal the 10 percent cost containment regulations established by the department in an effort to reduce hospital costs.

These regulations and the cost containment program were found to be invalid by a federal court on November 11, 1976. Although the state has appealed this decision, the appeals process could take up to two years. A full discussion of the hospital cost containment lawsuit is found on page 526 of the Analysis.

The original justification for the establishment of the three positions under discussion no longer exists as a result of the lawsuit. We therefore recommend that they be terminated immediately for the current and budget year savings listed above.

Public Works Employment Act of 1976

The budget proposes the establishment in the current year of 57.5 Medi-Cal related positions which will be supported in part by federal funds available from the Public Works Employment Act of 1976, Title II. These positions are proposed to continue in the budget year, but with Title II funds replaced by General Fund support. A total of $265,299 in Title II funds is proposed for expenditure in the current year. The full-year cost to the General Fund for the support of these positions in the budget year is estimated to be $501,782.

These positions together with our recommendations are discussed in the following three sections.

1. *Review Unit.* Establishment of a Surveillance and Utilization Review Unit (SUR) in the Field Services Section of the Medi-Cal Division (45 positions). We recommend approval of these positions.

During the current year a Surveillance and Utilization Review Unit consisting of 45 various positions was adminisratively established at an estimated cost of $644,640. Of this amount, $161,116 is from Title II of the Public Works Employment Act (PWEA) and the remainder is from other federal funds. The budget proposes to continue this unit in the 1977–78 fiscal year at an estimated cost of $1,185,715. Title II funds, however, will be replaced by $310,241 from the General Fund and the balance will continue to be federally funded.

The purpose of SUR is to identify and resolve Medi-Cal program abuse and misutilization which is not resolved by existing controls. SUR will absorb the current drug monitoring function and expand review activities into the areas of inpatient and outpatient hospitals, physician services, podiatry, psychology, optometry, laboratory services and dentistry.

The supporting documents submitted with this proposal lead us to believe that this function is desirable and can have a positive effect on controlling the growing costs of the Medi-Cal program. We are therefore recommending approval of these positions even though General Fund support will replace Title II funds.

2. *MIO Contract Monitoring.* Establishment of 9 positions in the Fiscal Intermediary Section to monitor the state's contract with Medi-Cal Intermediary Operations (MIO).

We withhold recommendation on nine positions pending (1) receipt and review of the report of the state audit currently being performed with respect to fiscal intermediary operations and (2) additional information from the department with respect to the effectiveness of the positions which were administratively established during the current year.

During the current year, nine positions were administratively established for the purpose of monitoring the claims processing contract between the state and the fiscal intermediaries. Estimated expenditures for this purpose in the current year are $117,219, $63,298 of which is from Title II PWEA. The budget proposes to continue these positions in the 1977-78 fiscal year at a total full-year cost of $225,038. General Fund support in the budget year of $121,521 will replace the Title II funds.

While it may be desirable to more closely monitor and manage the contract between the state and the fiscal intermediaries, we are withholding recommendation on these positions for the budget year pending receipt of further information. There is currently under way an audit of the subcontractor of the fiscal intermediaries. We anticipate that this audit will be completed and a report issued by the end of February 1977. This audit report may bear directly on the issue of contract monitoring. Additionally, we feel that the department should submit further justification for the continuance of these positions based on the current year performance of the administratively added positions.

3. *Security Unit.* The establishment of an internal security unit in the director's office (3.5 positions).

We recommend that the 3.5 positions established administratively during the current year be terminated and that the proposal to continue these positions in the budget year be denied for a General Fund savings of $70,020.

The department has administratively established during the current year three Special Investigator and .5 clerk-typist positions at an estimated current year cost of $54,513 to function as an Internal Security Unit in the Office of the Director. Of the current year funding, an estimated $40,885 is to come from Title II PWEA. For the budget year, Title II funds are to be replaced by $70,020 from the General Fund.

The stated purpose of the Internal Security Unit is the "detection and deterrence of illegal or questionable activities resulting in financial losses such as theft, identification and prevention of conflicts of interest, identification and prosecution of employee wrongdoers, such as patient abuse, etc., in Department of Health and Medi-Cal related operations."

The creation of such a unit presupposes that a number of employees of the department are engaged in the activities listed above. An ongoing activity of any agency of the state is to insure that its employees act in a humane and lawful manner. Admittedly, the Department of Health has recently had serious problems in the state hospitals concerning patient abuse. The appropriate response to this, however, is the institution of administrative and management changes to prevent its future occurence and not the creation of a special unit in the director's office.

There are available to the department sufficient resources in state government to accomplish the stated goals of the Internal Security Unit. In addition to the department's own auditors and investigators, there are audit units in the Department of Finance and investigative services available from the Attorney General, as well as the State Police to protect property.

We fail to see any justification for the establishment of an Internal Security Unit in the director's office of the Department of Health. Therefore, we recommend that any positions established during the current year for this purpose be terminated and that the request to continue such positions in the budget year be denied. This will result in budget year savings of $93,361 of which $70,020 is from the General Fund.

Implementation of the Medi-Cal County Administration Cost Containment Plan

We withhold recommendation on the County Administration Cost Containment program pending receipt of additional data from the Department of Health.

The Budget proposes an expenditure of $90.9 million from the General Fund for county administration of the Medi-Cal program. Federal matching funds are $38.3 million for eligibility determination costs for the medically needy and medically indigent children under 21 which are shared 50-50 between the federal government and the state. The medically indigent adult eligibility costs are 100 percent state funded.

The administration has expressed its concern over the rapid growth of county administrative costs for the Medi-Cal program and stated that action is necessary to bring these costs under control and would be given high priority and be implemented as soon as possible. However, during the hearings on the 1975 Budget Act, it was evident that the administration had done very little to control administrative costs. Therefore, the Legislature included budget language to insure action by the administration in this area for the 1975–76 fiscal year. Table 11 indicates that the increase in costs has averaged approximately 28.1 percent annually since 1972.

Table 11
General Fund Expenditures for Medi-Cal County Administration (Millions)

Fiscal Year	*Medi-Cal Program*	*Percent Increase*
1972–73	$27.6	—
1973–74	40.9	48.2%
1974–75	62.7	53.1
1975–76	71.6	14.2
1976–77	82.8	15.6
1977–78	90.9	9.6

The basic plan for cost control of Medi-Cal county administration contains four parts: (1) the development and continued improvement of a

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

Management Information System (MIS) that will provide needed information to both state and county personnel for the purpose of effectively reviewing their respective programs; (2) a joint effort on the part of the state and counties in the area of the review and simplification of Medi-Cal eligibility rules and procedures; (3) the establishment of management review teams to go out into the counties to identify both efficient and poor procedures and system and disseminate this type of information to other counties; (4) minimum workload and performance standards for eligibility/nonservice functions and overhead/support functions.

These two sub-parts to component (4) require additional explanation. Eligibility/non-service functions are measured by hours per major activity. Major activities are a combination of "dispositions"—approvals, denials, and other dispositions of applications for Medi-Cal and "certified eligibles"; those persons certified to receive a Medi-Cal card for a given month. The counties were then divided into three groups (large, medium and small) and ranked by hours per major activity. Simple statistical means were calculated for each group and those counties more than 20 percent above the means were considered out of tolerance. As a minimum, large and medium counties that are out of tolerance will be required to reduce their hours per major activity by 10 percent, or to the tolerance band, whichever is less.

Support Costs

The Medi-Cal cost control plan utilizes ratios of support costs per dollar of eligibility staff costs to rank the counties in the area of overhead/support costs. A 5 percent tolerance band above the mean was adopted by the Department of Health. Counties out of tolerance are required to reduce their ratio of support costs per dollar of eligibility staff costs by a minimum of 10 percent, or to the tolerance band, whichever is less.

This fourth component employs minimum standards of county performance in order to control county costs. The funds allocated to each county in 1976–77 for administration of Medi-Cal are based, in part, on estimated cost savings derived from implementation of the minimum standards.

County allocations are also based on projected changes in workload. Therefore, workload performance will be monitored, and adjustments to individual county allocations will be made when it is necessary. If the workload within a county is lower than anticipated, the county's allocation will be adjusted to reflect that lower level. If workload within a county is greater than projected, the county's allocation will be increased accordingly with the funds derived from the adjustments to other county allocations.

If workload growth exceeds statewide projections, the Department of Health shall request adequate funding from the appropriate control agencies in the normal budget process in December and May of each year. The department shall also notify the counties of its findings. However, when it appears that workload or expenditures may exceed departmental projections, the counties will continue to make every effort to keep their expenditures within the allocations and limits established under this plan.

The final aspect of the allocation formula is cost-of-living salary increases for county employees. The Department of Health will reimburse counties for their actual per-county cost-of-living increases which do not exceed a maximum of 6 percent per county.

There have been delays in the implementation of the other components of the Medi-Cal county administration cost containment plan. Data from a Management Information System which will provide a basis for evaluating a county's progress in reaching minimum support and eligibility worker performance levels is not available. Preliminary data has been collected by the management review teams which have the responsibility of identifying both efficient and poor procedures and then disseminating this information to the various counties. Although the Department of Health does not have sufficient data which would allow an evaluation of each component of the cost plan at this time, the data which are available for the first quarter of 1976–77 suggests that county expenditures for the state will be within the amount budgeted for the current year.

Creation of Single Department to Administer Medi-Cal

We recommend that those administrative elements in the Departments of Health and Benefit Payments which support the California Medical Assistance program (Medi-Cal) be removed from those departments and that a separate department within the Health and Welfare Agency be created to administer the Medi-Cal program.

The Governor's Reorganization Plan No. 1 of 1970 proposed the creation of a single unified Department of Health by combining the then existing Departments of Public Health, Mental Hygiene, and Health Care Services together with selected health related programs contained in other departments. Until that time the Medi-Cal program was administered by the Department of Health Care Services. The plan was initially to be implemented by July 1, 1971. However, the Legislature on two occasions enacted statutes which delayed implementation of the plan until July 1, 1973.

Chapter 1212, Statutes of 1973, created the Department of Benefit Payments which began operation on July 1, 1974. Certain functions relative to health auditing and the administration of the Health Care Deposit Fund (which supports the Medi-Cal program) were transferred from the Department of Health to the Department of Benefit Payments.

Thus, the administration of the Medi-Cal program is currently divided between the Departments of Health and Benefit Payments.

We were in support of the Governor's Reorganization Plan because we believed that one centralized department could more efficiently administer a wide range of health programs and hopefully eliminate duplication of effort between separate departments.

For a variety of reasons the department has been unable to fulfill this promise, leading us to reassess our position relative to a single Department of Health. The Medi-Cal program, which currently expends over two-thirds of the total Department of Health budget is a sufficiently large operation which merits a separate departmental structure with a full-time director and staff working exclusively on the administration of the program.

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Although this would result in two health-related departments, we believe the benefits of such restructuring would be twofold. First, it would permit the full attention of the new department to be focused on the problems and administration of the Medi-Cal program without having to compete for resolution of those problems with other Department of Health programs in the manner which now exists. Second, it would permit the Department of Health to utilize its remaining resources to provide health services more efficiently to the citizens of the state without having to interrupt the administration of such services every time a problem arises in Medi-Cal.

Our recommendation would result in a new department composed of approximately 1,500 positions with a total budget of $3.2 billion based on proposed 1977–78 expenditures. Corresponding reductions in the size of the Departments of Health and Benefit Payments would also result. Affected would be the present Medi-Cal Division of the Department of Health, together with the Alternative Health System (PHPs) and related support positions in various departmental elements (budgeting, accounting, personnel, licensing, etc.). Also affected would be various elements of the Department of Benefit Payments (health auditing, eligibility quality control, fair hearings, etc.).

It should be pointed out that our recommendation is not based on the assumption that administrative savings will necessarily occur as the result of a single department for Medi-Cal administration. However, it is anticipated that such a department will be able to manage the Medi-Cal program more effectively and respond to its changing needs in such a manner as to achieve program savings in the long term.

Additionally, our recommendation will solve a long standing dispute between the state and the federal government as to which agency of state government is the "single state agency" responsible for the administration of Title XIX services in California.

It is primarily for these reasons that we have recommended the formation of a major new state department. The alternative is to continue the administration of the state's largest single expenditure program in a department which has proven to be organizationally unwieldly and continually beset with problems which have interfered with the efficient administration of the programs for which it is responsible.

Department of Health
SPECIAL SOCIAL SERVICES PROGRAMS

Item 252 from the General Fund — Budget p. 600

Requested 1977–78	$75,681,012
Estimated 1976–77	61,405,109
Actual 1975–76	58,768,540
Requested increase $14,275,903 (23.2 percent)	
Total recommended reduction	None

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
252	Budget Bill Appropriation	General	$73,856,012
Chapter 977, Statutes of 1976	Child Protection	General	1,825,000
Total Expenditures			$75,681,012

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Transfer of Social Services Program. Recommend legislation transferring Social Services program from the Department of Health to Department of Benefit Payments. 538
2. Other County Social Services. Recommend method of allocating funds to counties based on number of public assistance recipients in each county. 541
3. Homemaker/Chore Allocation Method. Recommend phase-in of an allocation method based on the number of aged, blind, and disabled welfare recipients in each county. 545
4. Social Services Division Staff Increase. Withhold recommendation on the proposed 60 positions pending review of the department's social services activities. 545

General Program Statement

Public Law 92-512 limits federal Title XX social services funds to $2.5 billion annually, to be divided among the states on the basis of population. California's 1977–78 share is $247,250,000.

The sharing basis for funding social services programs is 75 percent federal and 25 percent state or county. However, all federal funds are being spent, while the state match in some social services programs far exceeds 25 percent. With this excess in state funds beyond what is required, any increase in any of the social services programs must be considered a 100 percent state cost, and any decrease a 100 percent state savings.

Section 15151.5 of California's Welfare and Institutions Code requires the state to allocate at least 66 percent of the federal Title XX funds to the counties. The 1977–78 budget proposes that $192,163,710, or 77.7 percent of the funds go to county welfare departments for the state matched Homemaker/Chore program and a variety of county matched programs

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

including Protective Services for children and adults, Out-of-Home Services for children and adults, Health Related Services, Employment Services, Information and Referral, and others.

The balance of the federal Title XX funds, $55,086,290, together with state matching funds, go to a variety of state programs in the Departments of Health (Community Rehabilitation, Regional Centers, Family Planning, Facilities Evaluation, Adoptions, Demonstration Programs, and the Social Services Division for administration), Education (Child Development), Benefit Payments (for administration), and Rehabilitation (Blind Counselors).

In addition to the Title XX federal funds and state and county matching funds, there are other state and federal funds that are used for social services programs. The total proposed budget for all social services programs for 1977–78 is $398,810,320. This includes $257,059,887 in federal funds, $99,132,461 in state funds, and $42,617,972 in county funds.

Included in the federal total are funds from PL 94-601 (HR 12455), which provides a one-time allocation to California of $23.7 million for the period July 1976 through September 1977 (15 months). PL 94-601 funds were intended to help states meet Federal Interagency Day Care Requirements. However, since California already meets these requirements, it is not necessary to use these funds to improve child care standards. Thus, the funds will be utilized primarily to maintain existing child care programs. Through redirection of other Title XX funds, expansion has been approved for other social service programs. The budget proposes to allocate the funds during fiscal year 1976–77 and 1977–78 in the following way: $3 million for Child Care, $17.5 million for Homemaker/Chore, $1.3 million for Services to Developmentally Disabled and Mentally Ill, and $1.9 million for various other activities. We will be discussing these proposed program increases in our analyses of the different programs.

Transfer of Social Services Program

We recommend legislation transferring the Social Service program from the Department of Health to the Department of Benefit Payments.

The Department of Health is currently designated as the state agency responsible for social services. The Department of Benefit Payments is the state agency responsible for administering income maintenance programs, which include the Aid to Families with Dependent Children (AFDC), the state portion of the Supplemental Security Income (SSI) program, and the Food Stamp program. The policy to separate social services from income maintenance programs was established in 1973 with the establishment of the Department of Health. Prior to that date, the Social Services program was administered by the state agency then known as the Department of Social Welfare.

Since 1970, the health and welfare "single state agency" concept attempted to articulate state policies that define health care and social services in health terms—this emphasis stresses the importance of physician medical practice such as regulating, providing standards, monitoring, and verification of credentials of providers of health care. Although social services is involved in a few direct phases of health care, the greater part of its energies are disbursed toward counseling and mobilizing community and governmental resources for recipients in order to provide them with competent health care treatment. The delivery of social services is therefore primarily welfare related in that their focus is similar to the income maintenance function of providing welfare services to the poor. The viability of social services is primarily related to welfare maintenance and in the main indirectly (through the delivery of services) to health care. The environment of the Department of Health focuses primarily on health care and results in a de-emphasis of the importance of the integration of social services in welfare administration. Located in the Department of Health, social services until very recently were the forgotten child operating among the health practitioners.

Under the current system with medical and social services in the Department of Health and the remaining income maintenance programs in the Department of Benefit Payments, the administration of welfare cannot achieve optimum effectiveness. The separation of social services and income maintenance divides the responsibility of welfare administration between the Department of Benefit Payments and the Department of Health. The separation and fragmentation not only has hampered operational effectiveness, it has also been questioned by the federal government, county welfare departments, public interest groups, and the public at large.

ANALYSIS AND RECOMMENDATIONS

The 1977–78 budget proposes General Fund expenditures of $75,681,012 for Special Social Services programs which is $14,275,903, or 23.2 percent, over the amount estimated to be expended during the current year. The proposed expenditures consist of $73,856,012 in Item 252 and $1,825,000 from Chapter 977, Statutes of 1976 (SB 30), which will establish demonstration programs to reduce the number of children in foster care.

Item 252 funds the Homemaker/Chore program, the Adoptions program, and Demonstration programs, all of which are in the Department of Health. Table 1 shows the proposed sources and levels of funding for these programs.

Table 1
Social Services Programs Funded by Item 252
1977–78 Fiscal Year

	General Fund (Item 252)	*General Fund (Chapter 977, Statutes of 1976)*	*Federal*	*Totals*
Homemaker/Chore	$58,263,418	—	$67,709,582	$125,973,000
Adoptions	15,392,594	—	—	15,392,594
Demonstration Programs	200,000	$1,825,000	200,000	2,225,000
Totals	$73,856,012	$1,825,000	$67,909,582	$143,590,594

Item 252 also identifies the federal funds for four other state social services programs. The General Fund money to match these funds is budgeted in other items with language authorizing its transfer to this item to match the federal funds. Table 2 shows the four programs and the

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

proposed 1977–78 levels and sources of funding for each.

Table 2
Social Service Programs Funded in Appropriations Other Than Item 252
1977–78

	State funds in other items	*Federal funds in Item 252*	*Totals*
Child Development, Department of Education	$10,671,314	$32,013,942	$42,685,256
Regional Centers, Department of Health	1,753,334	5,260,002	7,013,336
Community Rehabilitation, Department of Health	4,724,696	14,174,088	18,898,784
Blind Counselors, Department of Rehabilitation	35,000	105,000	140,000

Item 252 also contains two appropriations of federal funds for county social services programs for which the counties provide the matching funds. The first appropriation is of Title IV-B funds specifically for protective services for children. The second is of Title XX funds for all county social services other than Homemaker/Chore. These include Protective Services for children and adults, Out-of-Home Services for children and adults, Health Related Services, Employment Services, Information and Referral Services, and others. The proposed appropriations and the required county matches are shown in Table 3.

Table 3
County Social Service Programs
1977–78

	County	*Federal Funds in Item 252*	*Total*
Child Protection	$1,133,333	$3,400,000	$4,533,333
Other County Social Services	41,484,639	124,454,128	165,938,767

Adoptions

The budget proposes $15,392,594 from the General Fund, for subvention to public adoptions agencies, an increase of $807,279, or 5.5 percent, over the amount estimated to be expended during the current year. The increased funds are proposed for cost-of-living increases.

Adoptions Program Staff Increase

Item 241, Department of Health Support, proposes $409,028 from the General Fund to continue 14 positions in the Adoptions program which are being administratively established in the current year using federal funds. The new staff will be working exclusively on placing foster children in adoptive homes in 23 northern counties not presently being served by public adoptions agencies. The Department of Health estimates 70 placements a year based on experience in the Adoptions program's Santa Rosa Office. This would result in significant foster care savings.

Demonstration Programs

This subitem has three parts:

1. The budget contains $200,000 in federal funds to continue two child abuse pilot project centers established in the current year by Chapter 435, Statutes of 1976 (AB 2433). Chapter 435 appropriated $200,000 from the General Fund to fund the centers during the current year.

2. The budget contains $1,825,000 from Chapter 977, Statutes of 1976 (SB 30), "The Family Protection Act of 1976." Chapter 977 will establish demonstration programs to reduce the number of children in foster care mainly through services designed to keep families together. The legislation authorizes state staff and 4.5 positions are being established in the Children's Services Branch of the Social Services Division.

3. The budget proposes $200,000 from the General Fund for various demonstration projects not as yet determined.

Other County Social Services

We recommend continued phase-in of a method of allocating funds to counties for Other County Social Services which is based on the number of public assistance recipients in each county.

Item 252 identifies $124,454,128 in Title XX federal funds for allocation for Other County Social Services, that is, services other than the Homemaker/Chore program. These programs are operated by county welfare departments and include Protective Services for Children and Adults, Out-of-Home Services for Children and Adults, Health Related Services, Employment Services, Information and Referral, and others.

The $124,454,128 in Title XX federal funds is an increase over the current year of $875,000. Counties must match these funds with $41,484,639 to achieve the required matching basis of 75 percent federal and 25 percent state.

Prior to the current fiscal year, no state funds were included in the appropriation for Other County Social Services. However, the Budget Act of 1976 augmented this appropriation by $6,882,530 from the General Fund with no increased county funds being required. The Governor approved the General Fund augmentation with the stipulation that it would only be for this one time in order to avoid impending county layoffs, and with the understanding that General Fund augmentations would not be sought in subsequent fiscal years. The Governor's 1977–78 Budget proposes no General Fund money for this purpose.

The current year need for the General Fund augmentation resulted from the Department of Health's effort to change the method of allocating federal funds to the counties. In 1974–75 the Department of Health began a four-year phase-in of an allocation method based on the number of public assistance recipients in a county and a four-year phase-out of a method based on a county's past expenditures. Because of this, some counties were having their allocations increased, while others were having them decreased.

The $6,882,530 General Fund augmentation in the current year provided enough funds to maintain the existing level of funding to counties which were scheduled for decreases, and still increase the allocations to

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

those counties which were scheduled for increases. In order to continue the present level of service and fund a 6 percent cost-of-living increase in this program for the 1977–78 fiscal year approximately $16.0 million would be needed. The budget does not indicate if the existing programs are to be reduced by that amount, or if the funds are to come from some other source.

We recommend the continued phase-in of the allocation method based on the number of public assistance recipients in a county. The method is both more equitable and a means to get limited funds where they are needed most.

Though we are not recommending a General Fund augmentation for Other County Social Services, it is likely the counties will again propose it. In that event we would recommend the following conditions:

1. The counties should receive fixed Homemaker/Chore allocations.
2. The counties should participate in the funding of increased costs on a formula basis such as 50 percent county and 50 percent state.
3. The funds should not be a general augmentation for any purpose, but be directed toward some high priority, such as Child Protective Services. The funds could be used to implement staffing and other standards, with the goal of providing services to keep families together and reduce the number of children having to go into foster care. Counties would benefit doubly by such a use of funds, because a large portion of foster care costs are borne by the counties. This would be an expansion of the program established by Chapter 977, Statutes of 1976, (SB 30) described in the section on Demonstration Programs.

Homemaker/Chore

The budget proposes $58,263,418 from the General Fund and $67,709,582 in federal funds for a total of $125,973,000 for the 1977–78 fiscal year for the Homemaker/Chore program which is an increase of $8,163,000, or 6.9 percent over the amount estimated to be expended during the current fiscal year. The General Fund amount is an increase of $18,919,674, or 48.0 percent, over the estimated current year expenditure.

The Homemaker/Chore program, established in January 1974, provides domestic and personal care services to approximately 68,000 aged, blind and disabled people of low income to help them to remain in their own homes. County welfare departments operate the program and, depending on the county, services are provided by persons hired by the recipients, agencies under contract to the counties, or county employees. The State Department of Health adopts regulations and monitors county operations.

Recipients, depending upon their need, may receive up to $380 worth of services a month, except for severely impaired recipients, who may receive up to $548 worth of services a month. A severely impaired recipient is one who requires 20 or more hours a week of services to carry out certain functions of daily living specified in Section 12304 of the Welfare and Institutions (W and I) Code.

Section 12306 of the W and I Code requires the state to provide the funds to match federal funds in the Homemaker/Chore program. The matching basis for the program is 75 percent federal and 25 percent state. However, beginning in 1974–75, the state has provided increased state funds, while federal funds have remained constant. The $58,263,418 from the General Fund proposed for 1977–78 is $35,693,558 more than is required to match the $67,709,582 in federal funds that are available.

Homemaker/Chore Cost Growth

The cost growth of the Homemaker/Chore program from 1974–75 to 1977–78 is shown in Table 4.

Table 4
Growth in Homemaker/Chore Program
1974–75 to 1977–78

	Amount	*Annual Increase %*
1974–75	$80,854,109	—
1975–76	96,368,152	19.2%
1976–77		
Budgeted (Budget Act of 1976)	104,148,000	8.1
Estimated (Reestimated in 1977–78 budget)	117,810,000	22.2
1977–78		
Proposed in Governor's Budget	125,973,000	6.9 [a]
Estimated, assuming no reforms	138,100,000	17.2 [a]

[a] Compared to the reestimated 1976–77 figure.

Increases in the current and budget years result largely from (1) raises in the minimum wage, which is what most Homemaker/Chore workers receive, (2) the inclusion of Homemaker/Chore workers in the worker's compensation program, and (3) caseload growth of between 5 percent and 8 percent annually and increasing average levels of services being granted to recipients.

The Department of Health estimates the cost of the recent increase in the minimum wage to be $9.5 million in the current year and $13.0 million in the budget year. The estimated cost for the inclusion of worker's compensation benefits is $4.0 million in the current year and $8.0 million in the budget year.

The $117,810,000 estimate for the current year is $13,662,000 more than the originally budgeted amount of $104,148,000. The administration proposes to fund this deficit indirectly from $23,708,000 in one time available federal child day care funds coming into California under PL 94-601 (HR 12455). PL 94-601 provides funds for the purpose of implementing federal staffing standards for day care providers. Since California already meets these standards, the Department of Health is exchanging new federal day care funds for federal Title XX social services funds. The budget proposes to use a major portion of these Title XX dollars to fund the current year deficit in the Homemaker/Chore program.

The $138,100,000 estimate shown in Table 4 for the 1977–78 fiscal year is $12,127,000 more than the $125,973,000 proposed in the budget. The higher figure was developed by department program staff and was presented to us during discussions regarding the proposed budget. Apparently the budget assumes certain program reforms will be instituted which will control the costs of the program.

Homemaker/Chore Problem Areas

The Homemaker/Chore program has been studied and reviewed by the Department of Health, the Department of Finance, the Auditor General, and our office. These studies, plus recent discussions with state and county staff who administer the program, have found several problem areas.

The Department of Health has stated that program cost controls would be instituted. We have found little evidence that this has happened. The availability of funds, both budgeted and in deficiency appropriations during the past three years, has made it unnecessary for state and county officials to control costs, set priorities, and find less expensive ways to provide services.

Available, less expensive means of providing needed services are not being used. Many counties have meals-on-wheels and congregate meals programs, day care centers for adults, transportation services, telephone answering services and other programs and services which, if fully utilized, would result in significant savings to the Homemaker/Chore program.

There are significant variations from county-to-county in levels and quality of service and payments to providers. Allocation of the state and federal dollars to the counties has been based on past expenditures and not on the number of aged, blind and disabled welfare recipients in each county.

In reviewing some county programs, it is apparent that a significant number of recipients would not be in immediate danger of having to leave their homes if services were reduced or terminated. In addition, a significant number of paid providers are relatives of the recipients, often living in the same homes. These relatives might reasonably be expected to continue to provide services if they were not paid. Often homemaker/chore workers provide services to recipients who have able-bodied people living in their homes, or relatives living not far away, who might reasonably be expected to provide some or all of the needed services, instead of homemaker/chore workers.

Often the cost of homemaker/chore services, when combined with a recipient's SSI/SSP grant, is well above the cost of the appropriate level of out-of-home care, which might be room and board, nonmedical board and care, intermediate care, or skilled nursing care. This is not to say the program should terminate services when this is the case, only that homemaker/chore is an expensive service, which should be severely limited to that which is absolutely essential.

Homemaker/Chore Regulations

New regulations which are intended to control costs for the Homemaker/Chore program have been drafted, but are still undergoing reviews and revisions, after which they must go to public hearing, following which further revisions may be made. The Department of Health estimates an effective date of April 1, 1977 for the new regulations.

The proposed $125,973,000 for the Homemaker/Chore program will provide a 6.9 percent increase in the program for the budget year. New regulations and active cost control efforts should be implemented before there is any further expansion of this program.

Homemaker/Chore Allocation Method

We recommend phase-in of an allocation method based on the number of aged, blind and disabled welfare recipients in each county and phase-out of an allocation method based on each county's past expenditures.

A method of allocation of funds based on the number of aged, blind and disabled welfare recipients in each county is both more equitable and a means to get funds where they are needed most. It will result in some counties having their allocations increased and other having them decreased. The Department of Health has attempted to phase-in the new method for the past two years, but deficiency appropriations have negated its effect.

Homemaker/Chore and Medi-Cal

A significant portion of the Homemaker/Chore program may be eligible for Medi-Cal funding. If this is the case, Medi-Cal funds, which are 50 percent state and 50 percent federal, would replace 100 percent state funds. The Department of Health is presently studying the matter and expects to have a definitive statement on the feasibility of using Medi-Cal funds by February 1, 1977. Although the use of Medi-Cal funding may be desirable in appropriate cases, we have concerns about it: (1) to meet requirements for federal financial participation, the overall cost of providing service will be significantly increased, (2) Medi-Cal funding will allow unlimited program growth, and (3) reform of the Homemaker/Chore program will be delayed, or not attempted, because Medi-Cal funds are expected.

Social Services Division Staff Increases

We withhold recommendation on the proposed 60 positions for the Social Services Division pending further review of the department's social services activities.

Item 241, Department of Health, Support, proposes $1,369,215 from the General Fund to continue 60 positions that are being established in the current year using federal funds. The proposal has two parts:

1. Twenty-eight positions are for various units in the Social Services Division: four in the Children Services Branch, six in the Adult Services Branch, four in the Resources Control Section, eight in the Planning Branch, and six in the Evaluation Branch.

2. Thirty-two positions are for the Homemaker/Chore Section in the Social Services Division for various management activities including implementation of new regulations, liaison with counties, providers and clients, development of a management information system, implementation of Medi-Cal funding for portions of the Homemaker/Chore program, pilot projects, evaluations, fiscal monitoring of counties and providers, policy formulation, administrative support, and others. Previous to the current year, there were eight positions in the Homemaker/Chore Section. With this proposal, there will be 40.

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

We withhold recommendation of these 60 positions pending further review of the department's social services activities. We are particularly concerned about the department's delay in developing new regulations and making important policy decisions regarding the Homemaker/Chore program. Unless the department implements these important program requirements, we believe creation of additional positions will be ineffectual.

Department of Health

PROVIDER RATE INCREASES

Item 253 from the General Fund — Budget p. 614

Requested 1977–78	$52,611,649
Estimated 1976–77	N/A
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Provider Rate Increases. Withhold recommendation pending legislative action on Items 247, 248, 254 and 255.	546

GENERAL PROGRAM STATEMENT

This item appropriates the General Fund portion of proposed provider rate increases for Department of Health programs in the 1977–78 fiscal year. The funds are to be transferred to the respective programs upon order to the Department of Finance.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending legislative action on Items 247, 248, 254 and 255.

The budget proposes a General Fund appropriation of $52,611,649 for provider rate increases in various Department of Health programs. In addition the General Fund appropriation, an estimated $37,966,300 in federal funds is available for the Medi-Cal program. This item, therefore, will generate a total of $90,577,949 for rate increases in 1977–78. The proposed allocation of these funds is shown in Table 1.

Table 1

Allocation of Provider Rate Increase for Health Programs 1977–78 Fiscal Year

Program	*General Fund from Item 253*	*Federal funds*	*Total*
Medi-Cal	$49,349,300	$37,966,300	$87,315,600
Crippled Children's Services	1,027,950	—	1,027,950
Developmental Disabilities	2,036,896	—	2,036,896
Child Health Disability Program	197,503	—	197,503
Total	$52,611,649	$37,966,300	$90,577,949

The budget document states that these funds are to provide a 6 percent provider rate increase to all medical service providers with the exception of physicians.

The impact of these increases on each of the programs affected is discussed under the major support item for each program. Because the funds appropriated by this item are for transfer to such programs, any changes made in those programs should be reflected as an adjustment to this item.

We therefore withhold recommendation on Item 253 pending legislative action on the items affected by this item. The results of such action can then be reflected as an adjustment to this item.

Department of Health

ASSISTANCE TO CITIES, COUNTIES AND LOCAL AGENCIES FOR HEALTH SERVICES

Item 254 from the General Fund — Budget p. 623

Requested 1977–78	$39,807,625
Estimated 1976–77	N/A
Total recommended reduction	$984,659

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
254	Budget Bill appropriation	General	$33,586,442
Chapter 1507, Statutes of 1974	Hemophilia service	General	988,634
Chapter 606, Statutes of 1975	Indian health program	General	210,581
Chapter 835, Statutes of 1975	Cystic fibrosis	General	35,881
Chapter 902, Statutes of 1975	Prenatal testing—Amniocentesis	General	80,000
Chapter 1003, Statutes of 1975	Family physician training	General	729,300
Chapter 1217, Statutes of 1975	Health services—pregnant women	General	2,641,787
Chapter 1196, Statutes of 1976	Rural health	General	3,600,000
Chapter 693, Statutes of 1976	Family physician training	General	1,675,000
Total available			$43,547,625
Balance available in subsequent years			−3,740,000
Total Expenditures			$39,807,625

ASSISTANCE TO CITIES, COUNTIES AND LOCAL AGENCIES FOR HEALTH SERVICES—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Special Medical Care. Recommend Department of Health provide fiscal committees by April 1, 1977, with estimates of current and budget year costs of Hemophilia, Cystic Fibrosis, and Genetically Handicapped Person's programs.	550
2. Genetic Disease Prevention. Recommend Department of Health report to the fiscal committees by April 1, 1977 on effectiveness of Amniocentesis program.	551
3. Family Planning.	553
(a) Recommend Department of Health provide fiscal committees by April 1, 1977, with estimates of total funds that will be spent on publicly subsidized family planning services in California in the current and budget years, and a report on how family planning funds in Item 254 will be allocated in the budget year.	
(b) Recommend Department of Health report to fiscal committees by April 1, 1977, on efforts to utilize Medi-Cal funding and charges to recipients to pay for program expansion.	
4. *Child Health Disability Prevention Program.*	555
(a) *Recommend Item 254 be reduced by $984,659;* and that federal funds be reduced by $2,410,719.	
(b) Recommend $250,000 ($72,500 General Fund, $177,500 federal funds) be used to pilot test the effectiveness of two EPSDT units in two county welfare departments.	
(c) Recommend Item 241 (See page 469), support for the Department of Health, be reduced by $322,000 and that federal funds be reduced by $378,000 by eliminating 25.6 of 38.6 proposed new positions.	
5. Rural Health. Recommend report from the Department of Health to fiscal committees by April 1, 1977 on status of implementation of the Rural Health Program.	557

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund expenditure of $39,807,625 for Assistance to Cities, Counties and Local Agencies for Health Services. Of this amount $33,586,442 is in Item 254 of the Budget Bill and $6,221,183 is available from several previously enacted statutes.

Item 254 contains funds for 19 different programs administered by the Department of Health. All are in the Department's Health Protection Division, except for the Family Physician Training Program, which is in the Administrative Division. The subitems of this item have changed from the current to the budget year, so total amounts are not directly comparable. However, current year figures for the different programs are provided in our analysis of each subitem.

Funds appropriated in this item are for local assistance only. State administrative costs for the different programs are funded in Item 241, Department of Health Support. However, we will discuss state administrative costs in our analysis of this item.

Table 1 shows the sources and levels of funding for programs in this item.

Table 1
Programs Funded by Item 254
1977–78

PROGRAM	*General Fund In Item 254*	*General Fund Recent Legislation*	*Federal*	*Total*
a. Tuberculosis Control	$349,611	—	—	$349,611
b. Local Health Agencies:				
1. State formula grant	$5,685,200	—	—	$5,685,200
2. 314(d) federal funds	—	—	$3,097,776	3,097,776
3. Infant medical dispatch centers	150,378	—	—	150,378
4. Public health nursing services to the aged	664,378	—	—	664,378
Totals, Local Health Agencies	$6,499,956	—	$3,097,776	$9,597,732
c. Special Medical Care:				
1. Renal dialysis centers	$876,408	—	—	$876,408
2. Cystic fibrosis	81,779	$35,881	—	117,660
3. Hemophilia services	984,811	988,634	—	1,973,445
4. Genetically Handicapped person's program	383,991	—	—	383,991
Totals, Special Medical Care	$2,326,989	$1,024,515	—	$3,351,504
d. Genetic Disease Prevention:				
1. Sickle cell anemia	$410,728	—	—	$410,728
2. Amniocentesis	181,751	$40,000	—	221,751
3. Health services—pregnant women	—	1,641,787	—	1,641,787
Totals, Genetic Disease Prevention	$592,479	$1,681,787	—	$2,274,266
e. Tay Sachs disease	$371,000	—	—	$371,000
f. Immunization assistance	$715,500	—	—	$715,500
g. Indian health services	$2,058,854	$210,581	—	$2,269,435
h. Family planning	$13,451,873	—	$4,000,000	$17,451,873
i. Maternal and child health	—	—	$9,096,895	$9,096,895
j. Child health disability prevention program	7,220,180	—	$5,001,684	$12,221,864
k. Family physician training program	—	$1,204,300	—	$1,204,300
l. Rural health	—	$2,100,000	—	$2,100,000
TOTALS	$33,586,442	$6,221,183	$21,196,355	$61,003,980

A. Tuberculosis Control

We recommend approval.

This subitem proposes $349,611 from the General Fund for distribution to counties for tuberculosis care and control, which is $18,729, or 5.7 percent, over the amount estimated to be expended during the current year. This program was established by Chapter 671, Statutes of 1975. Most tuberculosis care and control is financed and carried out at the county level.

While the incidence of tuberculosis is going down nationwide, it is holding steady in California with about 3,500 new cases annually. The new cases are often found among new residents.

ASSISTANCE TO CITIES, COUNTIES AND LOCAL AGENCIES FOR HEALTH SERVICES—Continued

B. Local Health Agencies

We recommend approval.

This subitem has four parts:

1. State Formula Grant. The budget proposes $5,685,200 from the General Fund to be subvened to 42 local health departments for public health services in accordance with Section 1141 of the Health and Safety Code. This is $327,049, or 6.1 percent, over the amount anticipated to be expended during the current year. Funds are distributed in the following manner:

(a) $16,000, or 60 cents per capita, whichever is less, to each health department.

(b) The balance to health departments on the basis of population served. The counties must match this part of the subvention with $2 for every $1 they receive. However, actual county expenditures for public health services are many times this.

Sixteen small counties without health departments receive no funds under this program, but receive sanitarian and public health nursing services from the Contract Counties program of the Department of Health in accordance with Section 1157 of the Health and Safety Code.

2. 314(d) Federal Funds. The budget contains $3,097,776 in 314(d) federal public health funds, the same as in the current year, for subvention to 42 local health departments for public health services. These funds are distributed on a modified population basis.

3. Infant Medical Dispatch Centers. The budget proposes $150,378 from the General Fund for two 24-hour infant medical dispatch centers which link hospitals providing obstetrical services with intensive care nurseries in order to speed up the placement of critically ill newborn infants. This amount is $8,512, or 6.0 percent, over the amount estimated to be expended during the current year. This program was established by Chapter 1173, Statutes of 1974.

4. Public Health Nursing Services to the Aged. The budget proposes $664,378 from the General Fund for county projects to provide public health nursing services to the aged, which is $39,053, or 6.2 percent, over the amount estimated to be expended during the current year. The 12 counties presently participating in the program are required to put up $1 for every $1 received from the state. This program was established by Chapter 1168, Statutes of 1975.

C. Special Medical Care

We recommend that the Department of Health provide the fiscal committees by April 1, 1977, with estimates of the current and budget year costs of the Hemophilia, Cystic Fibrosis, and Genetically Handicapped Person's programs.

This subitem has four parts:

1. Renal Dialysis Centers. The budget proposes $876,408 from the General Fund for financial assistance to four adult and three pediatric renal dialysis centers in accordance with Sections 417–417.9 of the Health

and Safety Code. This is an increase of $49,608, or 6.0 percent, over the amount estimated to be expended during the current fiscal year.

2. Cystic Fibrosis. The budget proposes an expenditure of $117,660 for the care of financially eligible people with cystic fibrosis for the 1977–78 fiscal year, which is $6,660, or 6.0 percent, more than is estimated to be expended during the current fiscal year. The total amount consists of $81,779 from Item 254 and $35,881 from Chapter 835, Statutes of 1975.

3. Hemophilia Services. The budget proposes an expenditure of $1,973,445 for the care of financially eligible people with hemophilia for the 1977–78 fiscal year, which is $99,982, or 5.3 percent, more than is estimated to be expended during the current year. The total amount consists of $984,811 in Item 254 and $988,634 from Chapter 1507, Statutes of 1974.

4. Genetically Handicapped Person's Program. The budget proposes $383,991 from the General Fund for the Genetically Handicapped Person's program, which was established by Chapter 1212, Statutes of 1976 (SB 1483). The program provides medical care to financially eligible people with genetically handicapping conditions including cystic fibrosis, hemophilia, sickle cell anemia, and other conditions to be determined by the Director of Health. This program combines the Hemophilia and Cystic Fibrosis programs described above with the Sickle Cell Anemia program. The proposed $383,991 is for the care of people with sickle cell anemia.

The proposed funding levels for the Cystic Fibrosis, Hemophilia and Genetically Handicapped Person's programs are based on estimates of potential caseloads that were made when the legislation establishing the programs was enacted. These potential caseloads have not been realized and it is possible that these three programs are significantly overbudgeted.

If this is the case, then surplus funds could be used to expand the conditions under the Genetically Handicapped Person's program, or to liberalize the program's financial eligibility requirements, which are already more liberal than those in use by the Medi-Cal program. In our view, by establishing more liberal eligibility requirements for certain diseases, the state is building inequities into its system of health care for the poor. The department should report to the legislature the funds needed to provide services to those persons presently eligible with currently authorized conditions. Any funds which are in addition to that amount should be deleted from this item.

We therefore recommend that the Department of Health provide the fiscal committees by April 1, 1977 with estimates of projected current and budget year caseloads and expenditures for the Cystic Fibrosis, Hemophilia and Genetically Handicapped Person's programs.

D. Genetic Disease Prevention

We recommend that the Department of Health report to the fiscal committees by April 1, 1977, on the effectiveness of the Amniocentesis program.

This subitem has three parts:

1. Sickle Cell Anemia. The budget proposes $410,728 from the General Fund for sickle cell anemia research, consultation, counselor training, and other activities, which is $10,137, or 2.5 percent, over the amount estimat-

ed to be expended during the current year. The Genetically Handicapped Person's Program discussed previously pays for the medical treatment costs for persons with Sickle Cell Anemia, while this program primarily provides funds for research and prevention activities.

2. Prenatal Testing—Amniocentesis. The budget proposes an expenditure of $221,751 for contracts with clinics that do prenatal testing for genetic diseases by amniocentesis, which is $6,508, or 3.0 percent, more than is estimated to be expended during the current year. The total amount consists of $181,751 from Item 254 and $40,000 from Chapter 902, Statutes of 1975. When a diseased fetus is discovered by amniocentesis, there is the option of abortion. There are a number of genetic diseases which are deadly or debilitating, incurable, extremely expensive to treat, and common enough to justify expenditures to prevent them. The Amniocentesis program began July 1, 1976.

We recommend that the Department of Health report to the fiscal committees by April 1, 1977, on the effectiveness of the Amniocentesis program.

3. Health Services—Pregnant Women. The budget contains $1,641,787 from Chapter 1217, Statutes of 1975, for a pilot program to provide perinatal care to women with a high risk of delivering defective, handicapped, or stillborn infants.

E. Tay-Sachs Disease

We recommend approval.

This subitem proposes $371,000 from the General Fund, which is an increase of $21,000, or 6 percent, over the estimated expenditure for the current year. This is a genetic disease primarily affecting Jews, which causes death in the first years of life.

F. Immunization Assistance

We recommend approval.

This subitem proposes $715,500 from the General Fund for the purchase of vaccines for local immunization programs. Of that amount, $492,900 is for vaccines to immunize children through age 12 against a variety of diseases, and $222,600 is for flu vaccine for people age 60 or over and other high risk groups. The $492,000 proposed for the children's immunization program is $27,900, or 6.0 percent, more than is estimated to be expended during the current year. The flu vaccine program was preempted in the current year by the federal swine flu vaccination program. The 1975–76 expenditure for the flu program was $420,000.

G. Indian Health Services.

We recommend approval.

The budget proposes an expenditure of $2,269,435 for financial, training and technical assistance to urban and rural Indian health projects, which is $65,284, or 3.0 percent, more than is estimated to be expended during the current fiscal year. The total amount consists of $2,058,854 from Item 254 and $210,581 from Chapter 606, Statutes of 1975.

H. Family Planning

The budget proposes $13,451,873 from Item 254 and $4,000,000 in federal Title XX social services funds for a total of $17,451,873 for contracts with public and private agencies that provide family planning services to financially eligible people. The total proposed program increase is $679,266, or 4 percent. This increase is all from the General Fund, and is an increase of 5.3 percent over that which is estimated to be expended during the current fiscal year.

Better Family Planning Estimates Needed

We recommend that the Department of Health provide the fiscal committees by April 1, 1977, with estimates of the total funds that will be spent on publicly subsidized family planning services in California in the current and budget years, and a report on how family planning funds in Item 254 will be allocated in the budget year.

We further recommend that the department report to the fiscal committees by April 1, 1977, on efforts to utilize Medi-Cal funding and charges to recipients to pay for program expansion.

Public subsidized family planning services have expanded rapidly in California in recent years. In addition to state and federal funds appropriated in this item, the federal government provides funds directly to family planning clinics, and there are family planning services which are authorized for reimbursement under the Medi-Cal program. Services are also provided which are funded by counties and private donations. The Legislature should know the extent to which family planning services are being funded from all sources when it is asked to appropriate increased General Fund dollars for that purpose. The total funds available for all family planning purposes have not been identified in the past. We are recommending that such identification be made and presented to the Legislature.

Allocation of Family Planning Fund Appropriated by Item 254

The rapid expansion of family planning services has not been uniform throughout the state, and the age and population groups with the greatest need for services may not be the groups which are receiving the available funds. There is always the danger in rapidly expanding programs that additional funds go to agencies with a spending capability and not because the people they serve are in the greatest need. The result is over-developed programs in some instances and underdeveloped programs in others. There is indication that this is happening in the Family Planning program, and we therefore recommend a report on how family planning funds in Item 254 will be allocated in the budget year.

Further Family Planning Expansion

We are concerned that the ready availability of General Fund money has made it unnecessary for some family planning clinics to bill Medi-Cal for services provided to Medi-Cal eligibles. Medi-Cal is 90 percent federal funding and 10 percent state funding for family planning services. A further concern is that the ready availability of General Fund money has made it unnecessary for clinics to charge people who can afford part or all of the cost of services. To provide contraceptive services to one woman for one year costs about $50, or only about $4 a month, which many people can afford. In our view, further program expansion should be funded through Medi-Cal and charged to recipients, and not through increased General Fund money.

I. Maternal and Child Health

We recommend approval.

This subitem contains $9,096,895 in federal Title V maternal and child health funds for contracts with counties for maternal and child health projects in the areas of family planning, maternity and infant care, children and youth, dental health, and intensive newborn care, which is a decrease of $466,104, or 4.9 percent, from the amount estimated to be expended during the current fiscal year.

J. Child Health Disability Prevention Program

The budget proposes $7,220,180 from Item 254 and $5,001,684 in federal funds for a total of $12,221,864 for the local administrative and non-Medi-Cal screening components of the Child Health Disability Prevention program (CHDP). In addition, the state administrative component of $2,153,-518 is funded in Item 241 and the Medi-Cal screening component, proposed at $5,389,900, is included in the funding to the Medi-Cal program. The total proposed CHDP budget, all funds, is $19,765,282. This total is a proposed local and state staff expansion of $4,841,424, or 32.4 percent, over the current year program and is discussed in the following sections.

CHDP/EDSDT

Sections 306–308.9 of the Health and Safety Code established the Child Health Disability Prevention program (CHDP) to be operated at the local level, with standards and financing established at the state level. The program provides health screening examinations, and associated activities such as referral for diagnosis and treatment, follow-up, and outreach, for all children between birth and enrollment in the first grade and all Medi-Cal children between birth and age 21. The Medi-Cal portion of the program is known as EPSDT (Early and Periodic Screening, Diagnosis and Treatment) and is required by federal law. The Medi-Cal program pays for screening, diagnosis, and treatment of those persons eligible for the Medi-Cal program. State regulations provide that the state will pay for the screening of non-Medi-Cal children in Department of Health designated target populations if they are in families whose income is below 200 percent of the Aid to Families with Dependent Children (AFDC) basic minimum standard of adequate care.

Section 308.5 of the Health and Safety Code requires that all children entering the first grade, about 360,000 annually, are to have had a health screening examination within the previous 18 months.

The U.S. Department of Health, Education, and Welfare has assessed California $1,926,439 for the first quarter of 1974–75 for failure to implement the Medi-Cal portion of the program. The Department of Health is contesting the assessment. However, it is possible that penalties will be assessed for subsequent quarters as well. There are about 1.2 million Medi-Cal eligible children under 21 who are eligible for screening, diagnosis, and treatment.

The Department of Health estimates that 200,000 children will be screened in the current year. This includes both the Medi-Cal and non-Medi-Cal portions of the CHDP program.

High Administrative Costs

Table 2 presents a breakout of the 1977–78 CHDP budget both with and without proposed increases totalling $4,841,424. Note that administrative costs are proposed to increase from 41 percent to 55 percent of the total budget. Note also that with the proposed increases, the costs of state and county welfare department administration are very high in relation to the costs of local health department administration, though local health departments have the responsibility for operating the CHDP program. The proposed costs for these three components are $2,153,518 for state administration, $3,645,378 for county welfare departments, and $4,612,579 for local health departments.

Table 2

Child Health Disability Prevention Program

Program Component	*Current program funding level*	*Proposed increased funding level— With increases*	*Amount of increase*
1. Local health department administration	$4,612,579	$4,612,579	—
2. County welfare department staffing	—	3,645,378	$3,645,378
3. Non-Medi-Cal screening costs	3,423,393	3,582,993	159,600
4. Reimbursements to school districts	380,914	380,914	—
5. Department of Health Administration—Totals	1,117,072	2,153,518	1,036,446
a. CHDP branch, health protection division	(1,117,072)	(1,556,352)	(439,280)
b. Administrative division	(0)	(440,159)	(440,159)
c. Social services division	(0)	(157,007)	(157,007)
6. Medi-Cal Screening Costs	5,389,900	5,389,900	—
Total program (1, 2, 3, 4, 5, 6)	$14,923,858	$19,765,282	$4,841,424
Total screening costs (3, 6)	$8,813,293	$8,972,893	$159,600
Total administrative costs (1, 2, 4, 5)	$6,110,565	$10,792,389	$4,681,824
Administrative costs as percent of total	41 percent	55 percent	14 percent

Proposed Increase for County Welfare Departments

We recommend that Item 254 be reduced by $984,659 and that federal funds be reduced by $2,410,719 ($3,395,378 all funds) from the $3,645,378, all funds, proposed for county welfare administration.

We further recommend that $250,000 ($72,500 General Fund, $177,500 federal funds) be used to pilot test the effectiveness of two EPSDT units in two county welfare departments.

Item 254 proposes $1,060,546 from the General Fund and $2,584,832 in federal funds for a total of $3,645,378 to fund 148.4 positions in identifiable EPSDT units in county welfare departments for outreach and follow-up activities related to setting up appointments for Medi-Cal eligible children to receive screening, diagnosis, and treatment.

We believe that this is too great a commitment of funds to be made without first testing the effectiveness of these EPSDT units. We therefore recommend that Item 254 be reduced by $3,395,378, of which $984,659 is from the General Fund and $2,410,719 are federal funds. We are also recommending that $250,000 be retained in the budget for pilot testing the effectiveness of two 5-position EPSDT units in two counties.

Proposed Increase for State Administration (Item 241).

We recommend Item 241 (see page 469), support for the Department of Health, be reduced by $322,000 and that federal funds be reduced by $378,000 by eliminating 25.6 of 38.6 proposed new positions.

Item 241, Department of Health Support, proposes $474,914 from the General Fund and $561,532 in federal funds, for a total of $1,036,446 for a 38.6 position increase for state administration of the CHDP program. The positions are proposed to increase the state administrative capability of this program, conduct a public information campaign, and conduct a project to see how much screening is presently being done by the Medi-Cal program.

The CHDP program is extremely complex and experimental, and implementation has been slow and difficult. There is a need for increased state staff. However, we question the need for 38.6 positions for two reasons: first, justification for the positions is based in part on the assumption that the program will be expanding over the next few years to provide health screening examinations to more target populations. In our view, the program has not yet proved its value, and it is premature to propose its expansion. Second, CHDP is a locally operated program, and it seems uncertain that such a sizeable state expansion will result in a corresponding improvement in local programs.

We therefore recommend that Item 241 be reduced by $322,000 from the General Fund and $378,000 in federal funds. This will leave $336,446, all funds for 13 positions, the public information campaign, and a portion of the project to study Medi-Cal screening activities. We recommend that two of the positions go to the Social Services Division to administer the pilot testing of EPSDT units and other activities related to improving EPSDT outreach and referral activities in county welfare departments. The remaining eleven positions should go to the CHDP Branch, where the need for staff is the greatest.

K. Family Physician Training Program

We recommend approval.

The budget proposes the expenditure of $1,204,300 from Chapter 1003, Statutes of 1975 and Chapter 693, Statutes of 1976, for the Song-Brown Family Physician Training Program. The program provides funds on a capitation basis to institutions which train family practice medical sudents and residents, and programs which train primary care physician's assistants and primary care nurse practitioners.

L. Rural Health

We recommend that the Department of Health report to the fiscal committees by April 1, 1977 on the status of implementation of the Rural Health program.

The budget proposes an expenditure of $2,100,000 from Chapter 1196, Statutes of 1976 (AB 2450) for a program to remedy deficiencies in rural health services consisting of (1) the California Health Services Corps, which will recruit and assign health professionals to rural areas, (2) Health Services Development Projects, and (3) Coordination of Rural Health Programs through a rural health unit in the Department of Health.

As of the date of the preparation of this analysis, there has been no implementation of this program. The implementation may be unnecessarily delayed and thus we are recommending a status report.

Department of Health

CRIPPLED CHILDREN SERVICES

Item 255 from the General Fund — Budget p. 589

Requested 1977–78	$23,588,220
Estimated 1976–77	23,537,078
Actual 1975–76	18,008,137
Requested increase $51,142 (0.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Crippled Children Services (CCS) program provides medical care and related services to children with physical handicaps to correct, ameliorate or eliminate their handicaps. The program is funded on a three-part state and federal to one-part county basis. The program is administered independently by 25 counties under standards and procedures established by the Department of Health. The Department of Health administers the program directly in the 33 remaining counties. The program has financial eligibility and repayment requirements, except in the medical therapy programs in special schools and classrooms provided in conjunction with the Department of Education.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $23,588,220 from the General Fund for assistance to local Crippled Children Services (CCS), an increase of $51,142, or 0.2 percent, over the current year. As shown in Table 1, support for the CCS program comes from various sources. The proposed total budget is $40,088,178, an increase of $2,230,697, or 5.9 percent, over the current year.

CRIPPLED CHILDREN SERVICES—Continued

Table 1
Crippled Children Services
Proposed Source of Funds

	1976–77	1977–78
Family repayments	$965,000	$965,000
County funds	8,650,204	8,852,615
Health Care Deposit Fund	1,076,700	1,128,995
Federal funds	2,410,856	2,954,128
General Fund, Item 255, Local assistance	23,537,078	23,588,220
General Fund, Item 241, Department of Health support	1,217,643	1,571,270
General Fund, Item 253, Price and provider rate increases	—	1,027,950
Totals	$37,857,481	$40,088,178

Table 2 details the total proposed expenditure for the Crippled Children Services program for the current and budget years.

Table 2
Crippled Children Services
Proposed Expenditures by Program

	1976–77	1977–78
Diagnosis	$1,605,852	$1,618,897
Treatment	24,796,494	25,045,161
Therapy	7,765,825	8,231,772
Medi-Cal administration	1,045,904	1,139,596
County administration	1,401,645	1,429,414
State administration	1,217,643	1,571,270
Noncounty residents	24,118	24,118
Price and provider rate increase	—	1,027,950
Totals	$37,857,481	$40,088,178

A provider rate increase of $1,027,950 for the CCS program is proposed in Item 253. This amount will provide an overall 6 percent increase for nonphysician services in the program.

Department of Health
LEGISLATIVE MANDATES

Item 256 from the General Fund — Budget p. 609

Requested 1977–78	$579,288
Estimated 1976–77	546,498
Actual 1975–76	343,010
Requested increase $32,790 (6.0 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item makes a General Fund appropriation to the State Controller to reimburse local government agencies for costs mandated by state legislation. These reimbursements are required by Section 2231 of the Revenue and Taxation Code. Item 256 only contains reimbursements for health programs.

The item appropriates $579,288 which is $32,790, or 6.0 percent, above current year estimates. The mandating legislation and their estimated costs for 1977–78 are listed below:

1. Chapter 954, Statutes of 1973 (X-rays)	$126,011
2. Chapter 453, Statutes of 1974 (Sudden Infant Death Syndrome)	8,497
3. Chapter 1061, Statutes of 1973 (County Short-Doyle Plans)	283,660
4. Chapter 694, Statutes of 1975 (Developmentally Disabled)	46,640
5. Chapter 835, Statutes of 1975 (Cystic Fibrosis)	15,900
6. Chapter 854, Statutes of 1976 (Health Planning)	79,500
7. Chapter 1202, Statutes of 1976 (Nursing Assistants)	19,080
Total	$579,288

Descriptions of these mandates are found on page 609 of the Governor's Budget.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 257 from the General Fund, Item 258 from the EDD Contingent Fund, Item 259 from the Unemployment Compensation Disability Fund — Budget p. 646

Requested 1977–78	$42,620,539
Estimated 1976–77	41,551,303
Actual 1975–76	32,138,413
Requested increase $1,069,236 (2.6 percent)	
Total recommended reduction	$3,956,650

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
257	Employment Development Department	General	—
257 (a)	Work Incentive Program (WIN)		*$4,438,406*
257 (b)	Service Center Program		*4,169,137*
257 (c)	Office of Economic Opportunity		*155,500*
257 (d)	Migrant Services Office		*3,526,950*
257 (e)	Job Agents Program		*1,657,825*
	Total Item 257		$13,947,818
258	Pro Rata charges	EDD Contingent	3,048,825
259	Support DI Operations	Unemployment Compensation Disability [a]	25,623,896
	TOTAL		$42,620,539

[a] Nongovernment cost fund expenditure.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

		Analysis page
1.	Employment Services. Recommend follow-up report regarding revitalization of employment services.	561
2.	Work Incentive (WIN). Recommend the next annual WIN report contain documented evaluation of program components.	567
3.	*Job Agent Program. Reduce Item 257(e) by $1,657,825.* Recommend deletion of funding for Job Agent program and further recommend legislation to abolish the program.	569
4.	CETA Council and Office. Recommend legislation to transfer council and office to the Health and Welfare Agency Secretary.	574
5.	Employment-related Economic Development. Recommend study regarding state's role in developing and implementing employment-related economic development policies.	575
6.	Unemployment Insurance. Recommend appointment of a management/labor/government task force to develop an integrated program reform.	581
7.	*Unemployment Compensation Disability Insurance Fund Support. Reduce Item 259 by $1,000,000.* Recommend support for the program be reduced to maintain the experience of program support needs.	584
8.	*Migrant Housing Rehabilitation. Augment Item 257(d) by $250,000.* Recommend total budgeted amount for rehabilitation of migrant houses be maintained at $2 million level for budget year.	585
9.	Migrant Services Office. Recommend legislation to transfer Migrant Services Office to Department of Housing and Community Development.	586
10.	Rural and Migrant Affairs Program Coordinator. Recommend budget language prohibiting use of migrant housing funds for broad program coordination.	586
11.	*EDD Contingent Fund. Reduce Item 258 by $1,548,825.* Recommend support of EDD Contingent Fund appropriation be reduced in keeping with experience of support needs.	588

GENERAL PROGRAM STATEMENT

The Employment Development Department (EDD) is responsible for assisting job-ready individuals to find available employment, providing qualified job applicants to employers, assisting potentially employable persons to become job ready, providing comprehensive statewide and local manpower planning, and making unemployment and disability insurance payments. The department has additional responsibility for supervising two semi-independent programs, the State Economic Opportunity

Office and the Migrant Services Office, the latter being responsible for overseeing the state-operated Migrant Housing and Child Care Center program.

The department acts under the authority of the Wagner-Peyser Act, the Comprehensive Employment and Training Act of 1973, the Social Security Act, the Community Services Act of 1974, the State Unemployment Insurance Code, the State Employment Development Act of 1973 and several related statutes and administrative orders.

ANALYSIS AND RECOMMENDATIONS

The proposed state appropriations for support of the Employment Development Department in fiscal year 1977–78 total $42,620,539, an increase of $1,069,236, or 2.6 percent, over the current year estimated expenditures. We recommend approval of Item 257 (a), (b) and (c) as budgeted. The state support consists of $13,947,818 in Item 257 from the General Fund, $3,048,825 in Item 258 from the EDD Contingent Fund and $25,623,896 in Item 259 from the Unemployment Compensation Disability Fund.

The total expenditure program, after reimbursements, proposed for 1977–78 is about $2.5 billion. This is a decrease of $302.5 million, or 10.8 percent, from estimated expenditures in the current year. The bulk of the decrease is in unemployment insurance where costs are expected to be down about $302.3 million due to anticipated improvement in the economy during the budget year. There is also an anticipated decrease of $29.5 million in funds made available to the Employment Development Department for employment and training services under the Comprehensive Employment and Training Act (CETA). Disability Insurance costs on the other hand will increase by an estimated $15.7 million.

The cost increases involving state funds are generally nominal and relate to normal price and salary increases. The state match for the WIN program will increase by $323,313, a 7.9 percent raise tied directly to an anticipated increase in federal WIN funds. A non-General Fund item, the Disability Insurance program administrative cost will increase $960,372, or 3.9 percent. The budget document lists a total of 18 programs for which the department is responsible. Table 1 compares expenditures and personnel-years by program for fiscal year 1976–77 and 1977–78.

EMPLOYMENT SERVICES PROGRAM

This program provides a labor exchange for employers and job-ready applicants. The goal is to reduce, to the extent possible, the length of time that employers' jobs go unfilled and job-ready applicants are unemployed. The elements of the program are applicant assessment, job placement and indirect services. Indirect services includes labor market information services, employer and union services, community services, management, supervisory and technical services, and career development training.

The Employment Services program is funded through a federal grant of which about 15 percent is from federal general revenues and 85 percent from the federal unemployment insurance taxes levied on employers.

Revitalization of Employment Services

We recommend that the department submit to the Joint Legislative

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 1
Employment Development Department
Personnel-Years and Gross Expenditures by Program

Program	1976–77 Estimated Personnel-years	1977–78 Proposed Personnel-years	1976–77 Estimated Expenditures	1977–78 Proposed Expenditures
I. Employment Services	2,804.8	2,803.9	$59,178,868	$61,472,507
II. Food Stamp	145.0	145.0	2,639,433	2,739,400
III. Work Incentive (WIN)	1,118.0	1,118.0	41,349,535	45,027,396
IV. Service Center	169.3	169.3	4,051,366	4,169,137
V. Job Agent	66.7	66.7	1,642,223	1,657,825
VI. California Employment and Training Advisory Council	107.4	112.2	27,973,675	24,515,293
VII. Balance-of-State	69.5	60.7	42,466,912	20,100,000
VIII. Comprehensive Employment and Training	309.0	205.7	11,626,586	7,977,048
IX. Public Works Employment Act of 1976 (Title II)	241.0	285.0	20,000,000	30,000,000
X. Unemployment Insurance	4,922.2	4,565.7	2,114,548,738	1,812,294,951
XI. Disability Insurance	1,028.4	1,038.4	455,972,077	471,686,629
XII. Migrant Services Office	9.6	9.6	4,283,700	3,936,950
XIII. State Economic Opportunity Office	97.3	50.9	3,118,703	1,009,794
XIV. California Vietnam Veteran OJT Program	—	—	7,057	—
XV. Contract Services	108.5	51.7	1,883,198	1,499,986
XVI. Administrative Staff and Technical Assistance	(851.5)	(840.5)	(17,113,272)	(17,554,807)
XVII. Transfer of Contingent Fund Surplus	—	—	244,015	362,547
XVIII. Rural and Migrant Affairs [a]	—	—	(397,403,931)	(342,055,447)
Totals	11,196.7	10,682.8	$2,790,986,086	$2,488,449,103

[a] Information Display Only.

Budget Committee by December 1, 1977, a follow-up report specifying the results of the department's revitalization of employment services.

In the 1976–77 Analysis we recommended that the department report to the Legislature concerning its efforts to revitalize the state employment services. The recommended report, which was submitted to the Legislature in December 1976, outlines a number of basic changes which have been implemented to improve the service.

In its report, the department reemphasizes that the goal of the employment services program is efficient labor exchange, i.e., supplying employers with qualified job applicants and providing unemployed applicants with good job openings within as short a time span as possible. At the same time the department is committed to ensure equity of effort for all job applicants, those who are hard-to-place as well as those who are immediately job ready. In order to assist hard-to-place job applicants effectively, the department is initiating or reemphasizing activities such as job finding workshops and increased individualized job development attempts.

By concentrating on providing better services to employers, the department expects also to develop better job openings for applicants. Services to employers and to job applicants will be improved by assigning placement interviewers to work with specific industry or occupational groupings.

The searching of EDD files to fill new job orders with qualified job applicants who are registered with the department has been neglected in the past few years. As a result, registration of job applicants became a time-consuming and often meaningless process. New procedures now emphasize registering only those persons for whom a service is reasonably expected to be provided. At the same time file searching is being renewed as an integral part of employment services.

Some new procedures are also being tried in the job bank and central order taking programs to improve services. Special projects have been implemented in Los Angeles, San Diego and San Jose. Results of these projects are expected to be available about mid-year 1977.

These and other efforts being initiated by the department are encouraging signs that the employment services are in fact beginning to be revitalized. However, there are several issues which were not addressed by the department's report. We therefore recommend that a follow-up study be conducted by the department which will evaluate the results of the revitalization effort and will address the following specific issues.

No Service Received. In the past, a high percentage of job applicants have passed through the employment services system without receiving any services. The report should discuss this issue and indicate appropriate actions taken to increase services to applicants.

Services to Professionals. Currently, the employment services system provides very little assistance to professional workers. The department should develop a pilot project to determine the employment services needs of professional and semi-professional persons and the potential of EDD meeting those needs.

Quality Evaluation. Employment services are evaluated on a national basis by a simple "head count" of placement transactions or individuals placed. This method of evaluation fails to recognize the difference between a one-day domestic service placement paying $2.50 per hour and a full-time industrial service placement paying $300 a week. A system should be developed that will evaluate quality of placements as well as quantity.

Program Costs. The follow-up report should also deal thoroughly with the costs and benefits of the various program elements. The program consists of four elements. Table 2 shows the elements and the proposed funding for fiscal year 1977–78.

Table 2

Program Element Cost Comparison

1977–78

Program Element	*Cost*	*Percent*
1. Applicant assessment	$12,832,731	20.9%
2. Job placement	21,718,581	35.3
3. Indirect services	21,256,534	34.6
4. Administration distribution	5,664,661	9.2
Total	$61,472,507	100.0%

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Nearly 21 percent of the total effort statewide goes into the application process. Only 35 percent of the total resources of the program are used for the primary function, job placement. An almost equal amount of resources is used for indirect services such as developing labor market information, establishing employer and union services, promoting community relations and providing technical assistance. The staff development function is also a part of the indirect service. We question a distribution of resources which only directs 35 percent of the funding into the major thrust of the program. In fact, we were informed, the registration process in some instances actually consumes up to 45 or 50 percent of the field resources.

Costs Per Action Increasing. Finally, the report should deal with the problem of rising costs per action in the employment services program. Table 3 compares the cost per individual placed and the cost per placement transaction for fiscal years 1974–75 through 1977–78.

Table 3
Cost of Placement Activities
1974–75 through 1977–78

Fiscal year	*ES Total Program Expenditures*	*Placement Transactions*	*Cost per Transaction*	*Individuals Placed*	*Cost per Individual Placed*
1974–75 actual)	$49,971,565	436,007	$114.61	293,941	$170.01
1975–76 (actual)	52,272,732	412,575	126.70	280,007	186.68
1976–77 (est.)	59,178,868	465,000	127.27	323,107	183.16
1977–78 (est.)	61,472,507	465,465	132.07	323,444	190.06

"Placement Transactions" refer to the total number of placements achieved. Several transactions may involve the same individual placed in successive short-term jobs. "Individuals placed," on the other hand, reports only the total number of individuals placed during a fiscal year. The figures for 1976–77 and 1977–78 are based on estimates of the department. If the pattern of previous years is repeated, costs will actually be higher for both transactions and individuals placed than the initial estimates indicate. The report should include a discussion of this pattern of rising costs per benefits.

FOOD STAMP PROGRAM

All potentially employable applicants for food stamps are required to register for employment with EDD. As a condition for continuing eligibility for food stamps, registrants must accept referral to appropriate job openings.

This program is fully funded by the federal government. The 1977–78 budget of $2,739,400 is an increase of $99,967, or 3.8 percent. This will provide for 145 position equivalents.

The impression of most EDD management and staff that we have talked to is that this registration process is an expensive program which has very little value or effect.

WORK INCENTIVE (WIN)

The Work Incentive (WIN) program is designed to provide employment and training services to the employable recipients of the Aid to Families with Dependent Children (AFDC) program. With specified exceptions, employable members of AFDC families must register with EDD for the WIN program as a condition of eligibility to aid.

The WIN program is funded by 90 percent federal funds matched with 10 percent state General Fund. A total of $45,027,396 has been budgeted for the program in fiscal year 1977–78. The General Fund portion is budgeted at $4,438,406 which is an increase of $323,313, or 7.9 percent, above the amount estimated to be expended during the current year.

One change that will occur in the budget year is the transfer of state matching funds for the federal WIN child care allocation from EDD to the Department of Benefit Payments. Through this year, the federal WIN child care allocations have been budgeted by the Department of Benefit Payments but the matching funds were carried in the EDD budget.

Recent Program Results

The eighth annual report to the Legislature regarding the effectiveness of the California Work Incentive program indicates that the WIN program during the 15 months encompassing fiscal year 1975–76 plus a three-month transitional quarter ending September 30, 1976, exceeded the federally established goals in terms of the numbers of WIN participants who entered employment. The Department of Labor had set goals of 37,000 job-placements to be accomplished by the department during the 15 months. During that time, 46,133 WIN registrants entered employment. According to the data collected by the Department of Benefit Payments, welfare savings for the 15 months amounted to $37,000,000. California ranked well among the other more populous states both in terms of the number of registrants who entered employment and in terms of the total welfare savings.

One area in which the department has made some improvement is the relationship between the EDD WIN unit and the staff relating to WIN in the Department of Benefit Payments (DBP). Staff from the two departments have worked out problem areas and have begun to coordinate in seeking to establish better working relationships in the field between staff of the county welfare departments and EDD field offices. There is some discussion now of co-locating DBP and EDD WIN central office staffs in order to further enhance working relationships.

Another change in the program which appears to improve significantly the potential for assisting welfare recipients to enter employment is the Intensive Manpower Services (IMS) component. This component, adopted March 16, 1976, consists primarily of group job-finding workshop sessions in which the participants are helped in developing techniques for job seeking, application completion and job interviewing. Job-finding workshops have in other settings proven to be successful and it is likely that this will prove to be a strengthening feature for the WIN program.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Problem Areas

Although the department does seem to be making progress in correcting some of the past problems with the WIN program, there are a number of major problems which hamper the effectiveness of the program.

Registration. A year ago, reports from the department indicated that over 30 percent of the WIN staff time is used simply for the mandatory registration process. The eighth annual WIN report states that 16 percent of the time is still used for registration of clients who will never be assisted by the program. This problem results from the federal requirement that all nonexempt AFDC employable recipients must register with the WIN program as a condition of eligibility to receive aid. Table 4 compares the number of registrants with the number of persons who entered employment during fiscal year 1975–76 and the transitional quarter ending September 30, 1976.

Table 4

Comparison of WIN Registrants with Job Entrants [a]
Fiscal Year 1975–76 and Transition Quarter

Periods Covered	*Registrations (Cumulative)*	*Registrants At End of Reporting Period*	*Registrants Obtaining Full-Time Employment (Cumulative)*
FY July 1975 through June 30, 1976	355,214	137,789	33,821
Transitional Quarter ending September 30, 1976	387,633	230,392	41,436

[a] Source: *Eighth Annual Report to the Legislature on WIN.*

There were 387,633 cumulative registrants in the WIN program during the 15-month period. Only 41,436 of these registrants entered employment during that same time. Even this comparison does not give an accurate reflection of the relative ineffectiveness of the WIN program. Many of those who entered employment were never participants in the WIN program. A participant is a WIN registrant who is entered into a WIN service component. Of those who entered employment, it is estimated that almost two-thirds found jobs on their own rather than being referred by EDD. The eighth annual report states that only about 5 percent of the registrants on-hand at the end of each reporting period were actually participating in one of the WIN components. This indicates that there are many clients who are registered in the WIN program who are never provided a service.

Recognizing this problem, the department has applied to the Department of Labor requesting waivers in the WIN registration process. The department is asking to test the effectiveness of establishing WIN as a voluntary program in a few select counties. If the waivers are granted, the project will determine what savings may be realized by registering and serving only those AFDC clients who wish to volunteer for the WIN program.

Disincentives to Employment. One of the major problems facing AFDC employable recipients is the issue of disincentives to employment.

As social benefits through welfare and medical insurance programs are increasing, the disincentives for employment are also increasing. Higher costs of employment and related expenses also work against the AFDC family head entering employment. Because of these disincentives, the department is seeking waivers to test the benefit of using public funds to contract with private employers to provide jobs for volunteer AFDC recipients.

WIN Program Evaluation

We recommend that the department, in its ninth annual report to the Legislature on WIN present a fully documented evaluation of the WIN program components.

During the past several years we have brought to the attention of the Legislature the lack of good evaluation systems that is characteristic of most of the manpower programs and is particularly evident in the WIN program. The WIN program was inaugurated in 1968. Through the years, there have been massive collections of data and unending reports generated about it. Nevertheless, it is still virtually impossible to identify which components of the WIN program are the most effective. The seven basic WIN components as identified in the annual report are:

1. *WIN Institutional Training.* This component provides for vocational training through public or private facilities when it is determined that a WIN participant is not job-ready without some basic educational assistance.

2. *Work Experience.* A WIN participant may be placed in an unsalaried job training position for exposure to work experience and some skill training.

3. *WIN On-the-job Training.* The WIN participant may be placed in a regular employment situation in which the employer is reimbursed for portions of the costs of training the employee (up to 50 percent of the wages).

4. *WIN-COD (Career Opportunity Development).* This is a special California Public Service Employment (CPSE) project administered by the State Personnel Board and the Employment Development Department. WIN-COD places participants in state and local government civil service positions. Salary costs are reimbursed to the hiring agencies for periods of up to one year.

5. *WIN-PSE (Public Service Employment).* In addition to the public service employment under WIN-COD, the Employment Development Department also administers a separate WIN-PSE program.

6. *Intensive Manpower Services.* This is a new component designed to provide WIN participants with specific help in terms of job development and job-seeking techniques. It is administered primarily through the use of group job-finding workshops.

7. *Participation in Other Programs.* A WIN participant may be referred to another employment or training program such as programs under the Comprehensive Employment and Training Act (CETA).

There are no data available to demonstrate which of the above programs are effective for the various types of clients. The costs identified

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with each of the program components are unreliable. We recognize that the department has made efforts to improve the program through innovative new projects. However, the real effectiveness of the existing program has not been thoroughly evaluated. Therefore, we recommend that during the calendar year 1977, the department thoroughly review and evaluate the program and present the results of that evaluation with recommendations for changes in the ninth annual report to the Legislature on WIN.

SERVICE CENTER PROGRAM

There are eight service centers located in San Francisco, Richmond, Venice, South Central Los Angeles, East Los Angeles, San Diego, East Fresno and West Fresno. The Service Center program, administered through these eight centers, seeks to facilitate the more effective coordination, development and improvement of employment-related services to residents in the poverty areas in which the centers are located. The goal of the program is to assist the clients of the centers to reach their highest potential of economic self-sufficiency.

The program budget request for 1977–78 is $4,169,137 which is an increase of $117,771, or 2.9 percent, over the amount estimated to be expended during the current year. The program is totally supported from the State General Fund.

Program Redesign

During the past year, the department has redesigned the Service Center program in an effort to (1) make it more effective in meeting the needs of the clients it serves and (2) demonstrate clearly to the Legislature that the program is complementary rather than duplicative of the federally-funded employment services program.

The Service Center program was first implemented in 1966. The concept at that time was to establish a "supermarket" of services where the disadvantaged would be given all needed service assistance under one roof. Several state and local government agencies were located in the centers and a single administrator was the "functional" supervisor over all the programs in each center. Because of the conflicting purposes of the different agencies, the concept quickly deteriorated. Legislation in 1968 moved the program into the newly formed Department of Human Resources Development (HRD).

By 1972, the original program had virtually disappeared. HRD was being funded for a program which only existed in name. The service centers could hardly be distinguished from HRD centers which were fully funded by the federal government. There was no distinct use of the state service center funds and no separate reporting system to identify program outputs.

The department has now established a clearly defined separate program with 169 positions operating out of the eight service centers. Approximately 79 of these positions provide direct employment-related services to a specific caseload of clients. Service center clients are certified as being disadvantaged and hard-to-place persons in need of services beyond the normal employment services offered in other EDD offices. Each service center also offers the federally-funded services available in other EDD offices.

For the ongoing administration of the program, the department has established a separate reporting system which is regularly monitored and evaluated. Evaluations are based on two primary outputs, removal of barriers to employment and successful closures. For a case to be classified as a successful closure, the client must have been placed in a job by the program and must have remained employed for at least 30 days. Program goals for fiscal year 1977–78 include the successful closure of 5,762 cases.

The revised program began operating July 1, 1976. It is, therefore, much too early to determine the degree to which the program will be effective in serving the disadvantaged unemployed. We believe that the steps which have been taken will provide a good basis for future program evaluation.

JOB AGENT PROGRAM

The Job Agent program is a carryover from the Human Resources Development concept. The program was designed to provide job placement and employability-related supportive services to economically disadvantaged persons who live within defined economically disadvantaged areas.

The program budget proposal of $1,657,825 is a slight increase of $15,602, or less than 1 percent, over the current year expenditures. The program is entirely funded from the state General Fund.

Recommend Termination Job Agent Program

We recommend deletion of Item 257(e), General Fund support for the Job Agent program in the amount of $1,657,825.

We further recommend that legislation be enacted to abolish the program by deleting Sections 9603, 9611 and 9700 through 9704 of the Unemployment Insurance Code.

In our 1976–77 Analysis we withheld recommendation on the funding of the Job Agent program pending clarification of the department's plans and goals for that program. We pointed out that the Job Agent program from the time of its implementation in 1969 had never been a successful program. Numerous reviews of the program repeatedly found it to be ineffective. The department consistently failed to integrate the program into its overall service delivery system. At the time of last year's analysis, we were awaiting another departmental task force report which was subsequently issued on February 5, 1976.

The report directed itself to (1) the role of the job agent, (2) job agent employment standards, (3) evaluation of job agents, and (4) implementation of the task force recommendations.

The task force concluded that the intended role of the job agent is clearly stated in the Unemployment Insurance (UI) Code. The job agent, according to the UI Code is intended to be a case carrying individual who is responsible for assisting economically disadvantaged persons to become economically self-sufficient by mobilizing all applicable employment and employment-related services and bringing them to bear directly on the needs of the individual client. The report indicated that in practice, the

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role of the job agent since its implementation in 1969, has been no more than an "intensive placement specialist", a role which "cannot be considered cost-effective".

The remainder of the report essentially endorsed the policies and procedures that the department had already established regarding the Job Agent program and made the observation that the primary weakness of the program had been the inability or unwillingness of the department to enforce its policy directives. The report suggested a new training package be developed for the job agents. It recommended that the number of job agents proposed in the budget be reduced from 69 positions to 58 positions and that the salary savings be used to provide case service funds in the amount of $2,500 per job agent per year. The budget shows there are 66.7 positions authorized for the current year which are proposed to be continued in the budget year.

The task force was unable to reach a consensus on the organizational structure necessary to provide a new test of the Job Agent program concepts during fiscal year 1976–77. Because the case carrying function is unique among EDD programs, the majority of the task force felt that the job agent supervisor should be a person who is qualified to provide casework supervision, should supervise only job agents and should have no program responsibilities other than job agents. When the number of job agents in a single office is too small to merit one full-time supervisor, a "roving supervisor" should be assigned to give functional supervision to job agents in several local offices.The majority recommendation was rejected by the administration. Supervision is instead provided by persons who have supervisory responsibility for other EDD staff. The supervisor may or may not be experienced in the techniques of casework.

Continuation of Program Contingent on Performance. At budget hearings in early 1976, we stated that in view of the consistent failure of the department to administer the Job Agent program effectively, we seriously questioned its continuation in EDD. We pointed out that it is essentially a social work activity. We are doubtful that a social work function can ever become a well-supervised program within the structure of EDD. The department agreed that the program was entering a final testing period.

On the basis of our recommendation, budgeting for the current fiscal year was approved, and budget language was adopted requesting that "the department submit to the Joint Legislative Budget Committee by December 1, 1976 a report on the effectiveness of the Job Agent program and the desirability of continuing the program beyond fiscal year 1976–77."

The department submitted the requested report which stated that "the director of EDD has pledged his full support for the Job Agent program for the remainder of this fiscal year." The report goes on to say that several basic changes have been made in the program. A new performance standard requires that each job agent complete 40 successful closures per year. Case services funds in the amount of $2,500 per job agent have been made available. A job agent promotional examination has been given and five additional job agents hired, bringing the total positions filled to 55 out of the 66.7 positions authorized. The job agent program will also be included in regular field office evaluations for the first time.

The final paragraph of the report states "as a result of major changes in the Job Agent program this year, the program is beginning to move again in a positive direction toward improving services to the severely disadvantaged. With strong support from the administration and closer supervision, this program can be an effective means for aiding those individuals in need of employability services and employment."

Failure to Modify Program Results Substantially. We believe that the department's report, coupled with the job agent client summary reports which are issued monthly, demonstrates that there is no substantial change in the place of the Job Agent program in the EDD structure and that there is no change in the productivity of the job agents. As early as February 1976, the department agreed that by the end of 1976 it would produce a report relating to the desirability of continuing the program beyond fiscal year 1976–77. However, the job agent reports during 1976 have shown a consistent decline in the number of enrollments in the Job Agent program. At the end of December 1975, there were 3,038 clients in the statewide job agent caseload. Through November, 1976 (the most recent report produced by the department) each monthly report stated "the statewide caseload . . . reflects the continuing decline of the job agent caseload." The November caseload was 2,142 clients. Table 5 shows the job agent caseload summary at the end of each month from February when the department made the commitment to give a final test to the Job Agent program through November of 1976.

Table 5
Job Agent Caseload Summary
1976

Month	*New entries*	*Successful closures*	*Nonsuccessful closures*	*End of month caseload*
February	255	115	178	2,862
March	355	148	196	2,873
April	297	196	252	2,722
May	215	167	194	2,576
June	221	108	130	2,559
July	186	129	152	2,464
August	222	138	160	2,388
September	209	137	169	2,291
October	240	206	152	2,173
November	263	167	127	2,142

Between February and November of 1976 the caseload at the end of the month declined by 25 percent. During that same time, the new entries into the program showed a general tendency to decline, that is, during the last five months of fiscal year 1975–76, the average intake per month was 268.6 cases. During the first five months of fiscal year 1975–76, the average had declined to 224 per month. Comparing the same two five-month periods, there was a slight average monthly increase in successful closures in the first five months of the current fiscal year up from an average of 146.8 cases per month to 155.4.

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We believe that the program has had ample time to be tested in the Employment Development Department and its predecessor, the Department of Human Resources Development. Every evaluation of the program has demonstrated the department's failure to make it a viable part of its overall service delivery system and an effective, functioning program. The Job Agent program was designed as a key element in the HRD experiment. The HRD concept was discarded by the Legislature with the passage of the Employment Development Act in 1973. Although the job agent was retained in that legislation, the position lost its real purpose. The central purpose of the department was restored to that of primarily a labor exchange program. We believe that there are several reasons why the job agent function cannot work in the current departmental philosophy and structure:

1. Direct supervision of the job agents cannot be focused because the supervisor must carry the responsibility for a broad range of employment services and is likely not to be skilled in casework supervision.
2. The Employment Development Department has been authorized a total of over 11,000 employee positions during the 1976–77 fiscal year. Of that number, 2,804.8 are employment service workers; 1,118 are WIN workers. There are 66.7 authorized job agent positions. The 55 existing job agents are scattered throughout the department and involved in activities which are not integral to the type and focus of services otherwise offered by the department. We believe that the systems cannot be designed to integrate these positions effectively into the department.
3. The history of the Job Agent program under several different directors has consistently failed to meet expectations as envisioned by the HRD Act.

CALIFORNIA EMPLOYMENT AND TRAINING ADVISORY COUNCIL

This program consists of the California Employment and Training Advisory Council and Office. The CETA Council and Office are fully funded by federal grants and reimbursements. The budget projection for 1977–78 of $24,515,293 is a decrease of $3,458,382, or 12.4 percent from the amount estimated to be expended during the current fiscal year.

The California Employment and Training Office (CETA-O) was established in EDD to fulfill a two-fold function. First, the office serves as staff to the California Employment and Training Advisory (CETA) Council. Second, it administers the Governor's Special Grant funds made available to the state under the Comprehensive Employment and Training Act (CETA) of 1973 for purposes of (a) support of the CETA Council, (b) provision of statewide manpower services and (c) provision of vocational education services. In addition, the office is providing coordination between CETA prime sponsors and all state agencies relating to public service employment (PSE).

CETA Council History

The CETA Council was created originally by the state Employment Development Act of 1973. Initially called the California Manpower Planning Council, it was given broad responsibilities to establish and implement a program of comprehensive and coordinated manpower planning in California.

The council was subsequently modified to fit the requirements of the federal Comprehensive Employment and Training Act (CETA) of 1973. Under the federal act, the council is responsible for providing a coordinated network of employment and training services throughout the state.

The CETA Act provides that employment and training programs shall be locally planned and administered through local "prime sponsors." Any county or city with a population of 100,000 or more can qualify to be a prime sponsor. There are 37 prime sponsors in California including the state which acts as a prime sponsor for the remainder of the areas in the state not covered by local prime sponsors.

The CETA Council is responsible to review prime sponsor plans and plans of state agencies that have entered into agreements with prime sponsors. It is also responsible for making recommendations for improving the coordination and effectiveness of manpower services in the state and for monitoring all manpower programs offered under CETA. The council must submit an annual report to the Governor regarding manpower needs and programs in the state.

Statewide Manpower Planning and Coordination

It is vital that California establish a strong planning, coordinating and monitoring system designed to meet the unemployment problems facing the population of this state. During the past year the unemployment rate in the state has stubbornly held, on a seasonally adjusted basis, at a level of between 9 and 10 percent of the total population in the civilian labor force. In December 1975, the rate stood at 10.1 percent. It trended slowly downward during 1976 finally reaching 9.1 percent in December. The Governor's Budget predicts unemployment levels will average 8.4 percent in 1977 and 7.4 percent in 1978.

Labor force analysts generally acknowledge that there are many unemployed persons not reflected in unemployment statistics who have dropped out of, or never entered, the labor force because of discouragement due to the intense competition for available jobs. As the economy improves many of these discouraged workers will enter or reenter the labor force thus tending to keep the unemployment level high.

Even when the unemployment levels are reduced to a more acceptable range, there are groups of workers such as youths, minorities, and older workers who still find it difficult to penetrate the job market. Special employment and training programs should be developed to meet the needs of these target population groups.

The state manpower planning body can be expected to consider a wide variety of issues relating to employment in California, such as: (1) the integration of education programs with future labor market needs, (2) the effects of linking employment and training programs with economic development programs, (3) the possibility of encouraging jobs in the private sector through business stimulation efforts (such as fact-finding and information-dispensing activities), (4) the environmental impact of job creation efforts and the job creation impact of environmental protection and

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energy saving programs, (5) the effectiveness of some of the more popular categorical manpower programs including public service employment, on-the-job training, welfare work programs, unemployment insurance claimant job search efforts, EDD employment services, institutional training programs, (6) the identification of the kinds of programs which are working or need to be developed to assist special target populations to penetrate the employment market, (7) the potential effect on unemployment which might be achieved through concentration of efforts to stimulate development of labor intensive industries, and (8) the positive and/or negative influence on the labor force and the job market created by income supportive programs such as unemployment insurance, Aid to Families with Dependent Children, food stamps, Medi-Cal, etc.

Policy Vacuum. The present CETA Council and Office have not evidenced consideration of many of these issues. Instead, most of the efforts have been concentrated on the disbursement of the Governor's CETA discretionary funds. These funds appear to have been granted in a policy vacuum. Programs have been funded for one year as demonstration projects. However, no mechanism has been established to evaluate the projects to determine if or to what degree they are effective in alleviating California's unemployment problems. Furthermore, there has been no system implemented to continue those programs which might prove to be worthwhile.

In summary (1) employment and training resources in the state have not been identified as to program dollar amounts available, targeted populations, program impacts or overlapping efforts, (2) objectives for California employment and training programs have not been formulated, (3) working strategies for achieving a maximum impact by the use of available resources have not been developed, and (4) statewide coordination of employment and training programs is nonexistent.

Governmental Location and Organizational Arrangement of CETA Council and Office

We recommend legislation to:

(a) Transfer the California Employment and Training Advisory (CETA) Council and Office to the Health and Welfare Agency Secretary.

(b) Give to the Director of the CETA Office the powers and salary base of the head of a department.

Governmental Location. The current statute does not designate where in state government the council shall be located. Administratively the council and office have been placed in the Employment Development Department (EDD). There are at least four disadvantages to the location of the CETA Council and Office in EDD: (1) they are buried too low in the state organizational structure to have much impact on other state agencies, (2) there are conflicting roles of CETA prime sponsors with state employment services administered by EDD, (3) the tie to an old line bureaucracy limits the ability of the CETA Council and Office to provide innovative leadership in developing viable solutions to California's unemployment problems, and (4) the tie to EDD program interests also limits the council and office's capacity to plan, coordinate and monitor statewide employment and training efforts.

The nature of the responsibilities of the CETA Council and Office requires that they be located at a high level in state government. It should be reconstituted as an autonomous entity attached to an Agency secretary. We recommend the Health and Welfare Agency because of its linkage to EDD, the Department of Rehabilitation and the Department of Benefit Payments.

Organizational Structure. Both the state and federal law give responsibility to the CETA Council to formulate state manpower policy. The ability of the council to achieve a role of providing policy direction is weakened by having staff which reports not only to the council but also to the director of EDD. We believe that the council would be better able to fulfill its function if the executive director of the office which serves as staff to the council were given more authority and responsibility to concentrate the efforts of the office toward the planning, coordinating and monitoring of employment and training efforts.

State Employment and Economic Development Coordination

We recommend that a study be conducted to (1) define the state's role in employment-related economic and business development activities, (2) develop specific objectives for fulfilling the defined role, (3) evaluate current state activities in the light of the specified objectives, and (4) determine the most effective method of bringing together the state activities into a coordinated program.

Currently, the state efforts which are designed to have some impact on employment and unemployment in California are uncoordinated, fragmented, overlapping, and often working at cross purposes. We propose that a study be conducted to define what the state's role should be in economic and business development and to determine how these activities can be coordinated with employment-related activities in order to maximize the impact on California's unemployment problems.

The potential for state influence in economic development is limited because national and state economic conditions are influenced primarily by national fiscal and budgetary policies. However, there is a need to determine the extent to which a state policy for coordinated program implementation can influence California's unemployment problems. Until we have defined a proper state role and established a set of coordinated objectives for program implementation, the continuation of existing state and federally funded programs will be ineffective.

A brief review of California's efforts to alleviate the unemployment problems it faces demonstrates the need for a new approach

Department of Housing and Community Development. California's general economic development activities, during the past 15 years have lacked clearly defined objectives. Efforts have been uncoordinated and without demonstrated program effectiveness. In 1975, the Department of Commerce which had been chiefly responsible for economic development in the state was abolished. The technical economic development assistance function was transferred to the Department of Housing and Community Development (HCD). The information and correspondence

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and business liaison functions were terminated along with the Department of Commerce.

The economic development program at HCD offers technical assistance to local governments and administers a grant and loan program funded by a $2 million federal grant matched by $500,000 state General Fund. The program at HCD is small and lacking in any statewide policy direction.

Commission for Economic Development. Another state unit, the Commission for Economic Development, is statutorily responsible for reviewing economic development programs and reporting findings with recommendations to the Legislature and the Governor. Since its creation in 1972, the commission has been ineffective. By law it is due to be terminated on June 30, 1977.

State Economic Opportunity Office. The State Economic Opportunity Office (SEOO) has developed a few small projects, primarily in rural areas of the state, designed to improve the well-being of the poor population in California. A part of SEOO's efforts has been directed at forms of economic and business development. The projects have been developed without any overall planned objectives and little or no overall impact.

California Job Creation Program. The California Job Creation Program (Cal-Job) is designed to promote employment by assisting small businesses through a loan guarantee and technical assistance program. The program, in existence since 1968, has failed to have a significant impact on small business promotion. In addition, the loan guarantee program by the end of 1975 had experienced an accumulative business default rate of 39 percent of the firms assisted since 1969.

Chapter 985, Statutes of 1975, provided statutory authority for the formation of privately owned and operated business and industrial development corporations having statewide lending authority. This legislation primarily encourges "self-help" using private and federal funds as venture capital, without committing state funds or credit. We know of no one who has used this vehicle in California up to the present time.

Until now, California programs have done very little to foster economic and business development. The record of employment and training programs has been little better. Efforts have been uncoordinated and overlapping. There are several billions of dollars in federal funds coming into the state annually for a variety of employment and economic development-related programs, but there is no management information system to determine how these funds are being used.

There are a number of options available to the state to make better use of the existing human and fiscal resources to assist Californians to enter the labor market. These include direct financial assistance (limited), business locational assistance, employment and training programs, information research and fact finding, and technical assistance (primarily to small business). We recommend that serious consideration be given to the potential state role in these and other options, that the state role be defined and that a coordinated program be developed for implementation. A part of the recommended study should include an analysis of where the program efforts should be located in state governments, which of the existing programs, if any, should be terminated and which programs might be effectively merged into a single state department for more efficient and effective program implementation.

BALANCE OF STATE PROGRAMS

The purpose of the Comprehensive Employment and Training Act of 1973 (CETA) was to decategorize the numerous employment and training programs that had previously been established and to make manpower programs more responsive to local labor market conditions. Under the act, block grants are now made to 36 local government prime sponsors in California plus the state government which also receives a grant as prime sponsor for the 28 "balance of state" counties which are too small to qualify as prime sponsors. Prime sponsors are units of general local government with populations of 100,000 or more. They may also be a combination of units of local government which join together as a consortium as long as one of the members of the combination has a population of 100,000 or more.

The CETA Balance-of-State (CBOS) office administers the program through local planning councils in each of the 28 counties. The CBOS expects to receive funds totaling $20,100,000 during fiscal year 1977–78. This is a decrease of over $22 million from the current year. The two titles of the CETA Act (Titles II and VI) which provide for public service employment are being reduced dramatically because of the expected upturn in the economy.

The funds that are granted to the prime sponsors may be used to finance the development and creation of job opportunities and to fund training, education, and other related services designed to enable individuals to secure and retain employment commensurate with their maximum potential. Title I of CETA provides for a broad range of employment and training activities. Title II provides for public service employment with an emphasis on transition from subsidized to unsubsidized employment. Title III provides for summer employment programs for economically disadvantaged youth. Title VI, which was added as an emergency measure at the end of 1974, provided for massive public service employment during the recession of 1975–76. Title VI was recently extended through September 1977.

COMPREHENSIVE EMPLOYMENT AND TRAINING PROGRAM

Under the Comprehensive Employment and Training Act (CETA) of 1973, the role of the state employment services agency, EDD, in the delivery of manpower training services has been greatly changed. Prior to the passage of CETA, EDD was regarded as the presumptive deliverer of manpower services. Under CETA, manpower programs are locally administered through prime sponsors. EDD may become a service provider for a prime sponsor by entering into a contractual agreement to deliver employment and training services but otherwise has no role in such services.

Fiscal year 1974–75 was a period of transition from the categorical services enumerated in the Manpower Development and Training Act (MDTA) and the Economic Opportunity Act (EOA). Since December 30,

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1974, programs no longer exist under those two acts. EDD has since negotiated a number of contracts to deliver services similar to those which they previously offered under MDTA and EOA.

Through contractual arrangements, EDD will receive approximately $9,459,459 in reimbursements from local prime sponsors during the current fiscal year for employment and training services provided. It is expected to be reduced to $5,693,982 during fiscal year 1977–78.

In addition to the reimbursements from prime sponsors, the department receives federal reimbursements for services rendered under various CETA programs which are funded directly by the Department of Labor. During 1977–78 EDD expects to receive about $2.3 million in federal funds for (1) recruiting and enrolling disadvantaged young men to fill California's quota of openings in Job Corps, (2) providing managers of manpower development for the National Alliance of Businessmen (NAB) on-the-job training program and (4) providing labor market information services to California prime sponsors. Table 6 shows the program element costs and source of funding and the number of positions authorized for the Comprehensive Employment and Training Program for 1977–78.

Table 6
Program Elements of Comprehensive Employment and Training Program
1977–78

Element	*Element Cost*	*Source of Funding*
1. Comprehensive Manpower Services (CETA Title I)	$5,692,982	Prime Sponsors
2. Job Corps (CETA Title IV)	1,038,617	Federal Funds
3. Managers of Manpower Development (NAB-MMD)	437,362	Federal Funds
4. Labor Market Information (Title III)	808,087	Federal Funds

PUBLIC WORKS EMPLOYMENT ACT OF 1976 (TITLE II)

The purpose of the Public Works Employment Act of 1976 (Public Law 94-369) is to stimulate economic recovery by providing federal fiscal assistance to state and local governments. The Congress appropriated $3.25 billion to fund the two major titles of the Act: Title I, Local Public Works, provides $2.0 billion (California estimated at $250 million) to state and local governments for capital outlay projects, and Title II, antirecession provisions, provides $1.25 billion (California estimated at $180 million) to state and local governments to maintain basic governmental services.

Title I funds are being administered on a project by project award basis by the U.S. Department of Commerce. Commerce will also monitor the projects. Title II funds, on the other hand, are being awarded to the state or local entities on a block funding basis and must be monitored by the receiving entity.

The Governor has given EDD the responsibility as the single state entity to administer the Title II funds that are being allocated to the state. It is estimated that about $60 million will be allocated to the state with the remaining $120 million allocated to local government jurisdictions in the state. The Governor's Budget projects state allocations totaling $50 million. However, the state has already received almost $49 million. The final allocation should be between $10 and $12 million bringing the total to around $60 million. EDD is submitting recommended funding proposals to a policy group consisting of the Directors of EDD, the Department of Finance, and the Department of Housing and Community Development for further review and recommendation. Final project approval is made by the Governor's Office.

Title II Programs are subject to two major restrictions by the Act:

(1) payments must be appropriated (or obligated) within six months of receipt; and

(2) funds must be used "for the maintenance of basic services customarily provided to persons in that state."

Funds are being distributed to the state and local governments on a quarter by quarter basis for five calendar quarters, retroactively, from July 1, 1976, and running through the quarter ending September 30, 1977.

The anticipated funds and their distribution among state agencies is displayed in Table 7.

Table 7

DISTRIBUTION OF PUBLIC WORKS EMPLOYMENT ACT, TITLE II FUNDS

	Personnel-years		*Expenditures*	
	1976–77	*1977–78*	*1976–77*	*1977–78*
Employment Development Department (Administration)	7	10	$261,504	$392,256
Employment Development Department	48	68	720,025	1,080,038
Department of Industrial Relations	43	65	1,032,498	1,548,747
Department of Veterans Affairs	3	5	41,662	83,338
Department of Parks and Recreation	40	38	516,000	496,000
Department of Conservation	2	3	30,122	45,185
Office of Planning and Research	(9)	(10)	305,667	311,750
Secretary of State	4	6	62,000	93,000
Department of Consumer Affairs	5	7	143,570	215,352
Department of Benefit Payments	—	—	269,346	404,020
Department of Rehabilitation	(22)	(44.5)	313,076	469,615
Department of Education	12	18	154,378	231,568
University of California	60	40	1,071,600	714,400
California Community Colleges	7	10	83,144	124,716
Commission for Teacher Preparation and Licensing	2	3	36,939	55,408
Agriculture and Services Agency	8	12	287,334	431,002
Totals, State Operations	241	285	$5,328,865	$6,696,395
Local Assistance:				
Department of Health	(66)	—	$8,727,936	—
Total, Local Assistance	(66)	—	$8,727,936	—
Totals, Local Assistance and State Operations	241	285	$14,056,801	$6,696,395
Unallocated balance	—	—	5,943,199	23,303,605
Totals, PWEA of 1976 (Federal funds)	241	285	$20,000,000 [1]	$30,000,000 [1]

[1] Expenditures displayed on an estimated cash basis.

EDD-Administered Projects Under PWEA

For the purpose of overall state administration of the PWEA funds, EDD will receive $653,760 during the current and the 1977–78 fiscal years. In addition, the budget shows a total of $1,800,063 over the same two fiscal

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years which will fund the following projects: (1) two projects designed to reduce the backlog relating to unemployment insurance claims processing, (2) a manpower management information system project designed to provide current information regarding manpower supply and demand, and (3) a California Household Survey project which will test the feasibility of improving the accuracy of measurements of employment and unemployment in California.

In January the Department of Finance approved three more EDD projects under PWEA. The additional projects totaling $1,092,572 will seek to provide improved employment services to migrant and seasonal workers and to UI claimants.

Another pending project, if approved, will provide $1,500,000 for labor costs related to the rehabilitation of seasonal, migrant farm labor housing in state-operated centers.

UNEMPLOYMENT INSURANCE PROGRAM

The Unemployment Insurance (UI) Program operates under federal and state laws. Its primary objective is to reduce economic hardship through benefit payments to the eligible worker who through no fault of his own is unemployed. Eligibility for benefit payments is gained by working in "covered employment" as defined in the State Unemployment Insurance Code. The unemployment benefits and the cost of administration are funded by employer contributions.

The total UI program budget of $1,812,294,951 for fiscal year 1977–78 is an expected decrease of $302,253,787, or 14.3 percent. The bulk of the reduction is in benefit payments. The cost of administering the program is projected at $112,294,951 which is a reduction of $2,253,787, or about 2 percent.

Maximum regular benefit entitlement is limited to 26 weeks, but during periods of high unemployment such as 1976, Congress has extended entitlement in 13-week segments up to 65 weeks total. Benefits are paid through the State Unemployment Fund and extended benefits are from federal/state unemployment fund resources or from federal resources only.

Revenues to the Unemployment Fund are generated through employer payroll taxes. The fund operates on an insurance principle, building reserves in good times against future contingencies in the economy over which there is no control. Taxes vary according to the size of the fund's reserves and the experience of the individual employers in terms of the benefits paid to former employees. The adequacy of the fund to pay millions of dollars in extra benefits for the jobless is severely tested in periods of economic recession.

Unemployment Fund Balance

Solvency of the Unemployment Fund is traditionally related to the total and taxable wages of "covered employment" (all employees who are covered by the UI program). The estimated fund balance at the end of 1975 was about $549 million, or 0.9 percent of total wages. This is the lowest ratio the balance has reached since the program was implemented in

California. Table 8 shows the fund balance at the end of each calendar year, the relation the balance bears to total and taxable wages and the total income and expenditures of the fund from 1968 through 1976.

Table 8

Unemployment Fund Balance and Total Income and Expenditures 1968-1976

Calendar year	Fund Balance End of Year	Fund balance as percentage of wages: Taxable	Total	Total Income[a]	Total Expenditures[b]	Benefits as a percentage of current Employer Taxes
1968	$1,143,405,655	5.7%	3.1%	$607,446,252	$405,627,976	71.8%
1969	1,313,154,070	6.2	3.2	587,013,271	416,969,384	77.8
1970	1,226,643,058	5.8	2.9	574,894,600	661,011,290	130.0
1971	904,739,852	4.3	2.1	507,940,022	829,444,995	181.7
1972	975,084,520	4.0	2.0	697,269,485	626,492,657	96.4
1973	1,221,013,921	4.8	2.3	839,530,564	593,199,522	74.9
1974	1,153,218,245	4.3	2.0	764,242,220	876,506,172	123.2
1975	548,805,524 (est.)	2.1	0.9	855,980,513 (est.)	1,451,246,878 (est.)	178.7 (est.)
1976[c]	645,000,000 (est.)	1.6	0.9	1,490,000,000 (est.)	1,300,000,000 (est.)	89.0 (est.)

[a] Includes regular employer contributions, interest on the fund and miscellaneous receipts. Does not include income from reimbursements.

[b] Includes both regular and the state share of extended duration benefits and administrative disbursements; does not include reimbursable and extended duration benefits.

[c] The 1976 estimates were published by the department in April of 1976. Experience of the fund during 1976 indicates that the actual fund balance at the end of 1976 was still under $600 million.

The taxable wage base represents that portion of each employee's annual wage on which employers pay the UI tax. Through calendar year 1975 employers paid a tax on the first $4,200 paid each employee in a calendar year. The taxable wage base was increased to $7,000 during 1976. This change will help to assure that the fund will not be exhausted, but it is expected that it will take several years to replenish the fund level to a point of relative solvency. Another major economic recession in the next few years would seriously jeopardize the fund.

Major Program Reform

We recommend appointment of a task force consisting of representatives from management, labor and government to develop an integrated reform of the Unemployment Insurance program.

The primary goals of the Unemployment Insurance (UI) program are:

1. To provide a minimum level of protection against wage loss to all individuals who are regularly attached to the labor market; and

2. To provide counter-cyclical economic pressures by (a) maintaining the workers' purchasing power during periods of unemployment and by (b) to the extent possible, reducing employers' taxes during periods of economic slumps and increasing taxes during periods of economic strength.

In order to achieve these goals, the program must be balanced in terms of income to and disbursements from the fund. Several factors need to be

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

kept clearly in mind in order to maintain such a balance. In the past, benefits have been expanded or coverage extended without giving adequate consideration to the effect on the financing of the fund.

Benefit Standards. A claimant's entitlement to UI benefits is based on his high quarter earnings during the "benefit year". The benefit year consists of the four consecutive calendar quarters which ended four to six months immediately prior to the filing of a claim. To be eligible for benefit payments of $30 per week, a claimant must have earned between $187.50 and $737.99 during the high quarter of his benefit year. Benefits of $104 per week require earnings of $3,308 or more during the high quarter. Table 9 relates selected benefit payment levels to high quarter earnings as mandated in the state UI Code Section 1280.

Table 9

Amount of wages in highest quarter	*Weekly benefit amount*	*Ratio of benefits to average weekly wages*
$187.50–$737.99	$30	52.8%
1,270.00–1,297.99	50	50.1
1,948.00–1,987.99	70	45.8
2,748.00–2,787.99	90	42.0
3,308.00 and over	104	40.9

The UI program was initially designed with the aim that the weekly benefit award of each claimant would approximate 50 percent of his qualifying average weekly salary. California's benefit schedule pays claimants at about 53 percent or more of their average weekly earnings for lower wage earners, but only 41 percent or less for higher wage earners. In addition, the benefit levels fail to keep pace in a timely manner with prevailing earnings patterns, i.e., inflationary trends continue while the salary replacement level lags behind. A benefit standard which, for all claimants, is automatically tied to a percentage replacement of lost wages (somewhere around the 50 percent range) and a maximum benefit level which is tied to a fixed percentage of the average annual wages in covered employment (somewhere between 60 and 65 percent of the average annual wage) would be more desirable.

Qualifying Requirement. California's current earnings requirement of $750 during the base year fails to establish that the claimant is attached to the labor market. An individual working at the average weekly salary in covered employment could qualify with less than four weeks of work in the base year. A requirement should be enacted which, on the basis of recent employment history, would establish that the claimant is attached to the labor market and would screen out of the system those who are not in the labor market. We would suggest a required minimum number of weeks of work, or an equivalent thereof, rather than a flat earnings requirement.

Counter-Cyclical Funding. A third area of major concern is the funding of the UI program. The California UI program is funded through employer taxes which are based on the amount of wages paid to workers who are covered by the program. Taxes are assessed on a low tax schedule when the Unemployment Fund reserve is at or above the statutory measure of 2.5 percent of the total wages of covered employment. When the reserves slip below that level, taxes are based on the high tax schedule.

The high/low tax schedule was designed to be counter-cyclical in operation by securing lower taxes during periods of economic softness or recession and higher taxes during times of economic recovery or expansion. It was intended that during years of economic prosperity the reserves would build to such a point that the low tax rate would be triggered and remain in effect during a one- or two-year period of moderate economic decline. Then it was expected that by the time the economy would begin its recovery, the fund balance would have dropped to a point that would trigger the high tax rate to correspond to the economic recovery.

In practice, the mechanism has failed to provide a consistently counter-cyclical thrust to the economy. Most recently, it was necessary not only to move to the high schedule during the severe recession of 1975, but also to expand the taxable wage base from $4,200 to $7,000 in 1976. These changes had adverse economic effects but could not be avoided in the light of the heavy drain that was being imposed on the fund's threatened reserves.

The state has traditionally placed its highest priority on maintaining the solvency of the UI Fund. If possible the UI tax mechanisms also have attempted to achieve counter-cyclical effects but only if they did not jeopardize the fund's solvency. In periods of prolonged or severe economic recession, there is a basic conflict between these two objectives and there is no easy answer to this dilemma.

No mechanism can be designed that will automatically adjust to be counter-cyclical. At best, alternating tax structures could be designed to be implemented periodically by the Director of EDD to counter balance the prevailing economic conditions. However, a truly counter-cyclical tax structure cannot be implemented without substantially increasing the ongoing level of reserves in the Unemployment Fund. Unfortunately, a higher reserve can result in added pressure on the Legislature to increase benefit levels.

Changes, therefore, in the UI tax mechanisms must be made in the context of a total program redesign. Currently, the Employment Development Department is gathering demographic data which can be used to determine how a number of possible changes in the program would interact with one another. This data collection phase should be complete in June of 1977. We believe that at that time a task force consisting of representatives from business, labor and government should work through a total integrated reform of the program including the issue of a counter-cyclical funding mechanism.

DISABILITY INSURANCE PROGRAM

The State Disability Insurance (SDI) program was established as a California program in 1946. The primary objective of the program is to reduce economic hardship through benefit payments to workers who cannot work due to a nonemployment-related illness or injury. To be eligible a claimant must have earned at least $75 during a quarter worked in "covered employment" as defined in the UI Code. Employment may be cov-

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

ered either under the state plan or a voluntary plan. Voluntary plans are sponsored by employers and approved by the Director of EDD.

The program is funded by worker contributions of one percent of their monthly taxable earnings. Last year, taxable earnings were raised (Chapter 1182, Statutes of 1976) from $9,000 to $11,400 of the annual wages of covered employees. Benefits, which are based on the high quarter earnings of each claimant, range from $25 per week to $119 per week. Chapter 1182 also extended DI coverage to women who are unable to work because of normal pregnancy. Coverage for normal pregnancy is limited, however, to a total of six weeks.

Reduce Administrative Support

We recommend that Item 259 be approved in the reduced amount of $24,623,896, a savings of $1,000,000 to the Unemployment Compensation Disability Fund to maintain the experience of program support needs.

An amount of $25,623,896 is proposed for administrative support of the DI program during fiscal year 1977–78 which is an increase of $960,372, or 3.9 percent, over the estimated expenditure in the current year. Although this is a modest increase, we believe that the program is overbudgeted. Table 10 shows that during the most recent four fiscal years the program has realized program savings which have averaged over $1,000,000 per year.

Table 10

Unemployment Compensation Disability Fund
Program Savings Fiscal Years 1972–73 through 1975–76

	1972–73	*1973–74*	*1974–75*	*1975–76*
Budget Act appropriation	$14,298,753	$15,902,307	$17,505,705	$21,138,512
Allocation for salary increase	—	1,103,662	1,142,527	—
Total	$14,298,753	$17,005,969	$18,748,232	$21,138,512
Unexpended balance	$388,341	$1,895,738	$581,904	$1,334,439

In two of the four years the projected program savings were sufficient to absorb salary increases without the allocation of additional funds to the program for that purpose. The budget request in 1975–76 was 20.8 percent above the budget request of 1974–75. This increase proved to be $1.3 million higher than needed, but the subsequent requests for 1976–77 and 1977–78 continued these excessive increases. We believe that the past several years' experience demonstrates that the program is over budgeted by about $1 million. Therefore, we recommend that the budget authorization be reduced by $1,000,000 for fiscal year 1977–78.

MIGRANT SERVICES OFFICE

The Migrant Services Office administers a program of temporary housing, child care services and supportive services for seasonal farm workers and their families. There are 25 migrant housing centers providing a total of 2,118 houses located in various rural communities from Bakersfield to the Oregon border. Centers are open for a maximum of 180 days each year (although individual centers may remain open for short-time extensions if the agricultural community's need for migrant workers extends beyond the original date set for closing of the center).

The program is administered through local housing authorities on a contractual basis. Center managers collect moderate rental fees from the families living in the centers. These fees net about $410,000 per year in reimbursements to the program which is used for off-season maintenance of the centers.

Migrant Housing Rehabilitation

We recommend that Item 257(d) be augmented by $250,000 to maintain the $2 million level for migrant housing rehabilitation.

The budget proposes total program expenditures of $3,936,950 in fiscal year 1977–78, which is $346,750, or 8.1 percent, less than the budget for the current year. This decrease reflects the removal in the budget year of two revenue sources which were available in the current year. The federal government allocated $250,000 to the program for the current season. That grant constituted the final involvement in the program by the Department of Labor. Up until fiscal year 1975–76, the major support to the program was provided by federal grants through the Economic Opportunity Act which has been replaced by the CETA Act.

Also contained in the 1976–77 budget is a $100,000 General Fund appropriation granted on a one-time only basis for the completion of a migrant master plan.

The net effect of the reduced budget for fiscal year 1977–78 is the reduction of $250,000 which had been designated for the rehabilitation of houses. Table 11 compares the program elements and funding of the Migrant Services Office for fiscal years 1976–77 and 1977–78.

Table 11

Migrant Services Office

Program Element	*Fiscal year 1976–77*	*Fiscal year 1977–78*
1. On-season maintenance	$973,298	$973,298
2. Off-season maintenance	410,000	410,000
3. Housing Rehabilitation	2,000,000	1,750,000
4. Day care	563,000	563,000
5. Migrant administration	325,780	228,632
Administration	11,622	12,020
Total	$4,283,700	$3,936,950
General Fund	$3,623,700	$3,526,950
Federal funds	250,000	—
Reimbursements	410,000	410,000

In the Budget Act of 1976, the administration requested and the Legislature approved a three-year program of housing rehabilitation at a cost of $2 million per year. A portion of that $2 million in the current year consists of the federal allocation of $250,000. Due to the unavailability of federal funds for 1977–78, we recommend that the General Fund request be augmented by $250,000. This will retain the earlier commitment of $2 million for housing rehabilitation.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Migrant Services Office

We recommend that legislation be enacted to transfer the Migrant Services Office from EDD to the Department of Housing and Community Development.

In December 1976, the first of two reports establishing a migrant housing master plan was published. The Migrant Services Office summarized the findings of the report as follows:

"*Need for migrant labor will continue unchanged through 1985.
*Need for migrant housing program will remain unchanged through 1985.
*Existing centers need complete reconstruction within five years.
*Number of housing units provided by the state should be increased by 3,400 units to meet *existing* demand.
*New centers should be constructed in the following counties: Ventura, Tulare, Imperial, Riverside, Madera, Sacramento, Santa Cruz."

The report presents a detailed analysis of each of the 25 centers and prioritizes the immediate housing rehabilitation needs. It further suggests that funding for new construction or rehabilitation might be available through Farmers Home Administration loans which could be repaid from increased rental charges to the occupants of the homes.

We concur with many of the findings of the report especially relating to immediate rehabilitation needs in some of the centers. We are concerned, however, with recommendations to add 3,400 additional units. We estimate conservatively that it would cost $10,000 per unit to put in new centers, an expenditure of $34 million.

We are also concerned that the program continues to function outside the purview of the Department of Housing and Community Development (HCD). HCD is responsible not only for the statewide housing program but specifically for the development and implementation of the Farmworker Housing Assistance Plan. We believe it is essential that the Migrant Services Office be placed under the administration of HCD to assure that the program is fully integrated into the statewide farmworker housing plan.

Rural and Migrant Affairs Program Coordinator

We recommend that budget language be added to Item 257(d) to read: ". . . provided that no funds from this item shall be used to carry out the broader functions of the Rural and Migrant Affairs program coordinator."

During the current fiscal year, the Health and Welfare Agency designated the Chief of the Migrant Services Office to assume the additional responsibilities of the Rural and Migrant Affairs program coordinator for the agency. According to the agency, this arrangement will be continued for fiscal year 1977–78. The Chief of the Migrant Services Office estimates that he spends approximately 20 percent of his time on coordinator-related activities. No funds have been included in the agency budget to reimburse the Migrant Services Office for these expenses.

For a full discussion of the Rural and Migrant Affairs Program Coordinator, see our Analysis of Item 31, support for the Health and Welfare Secretary. The coordinator role is broader than the responsibilities of the Migrant Services Office and not directly related to its purpose. We recommend that budget language be adopted prohibiting the use of funds from the Migrant Services Office for this purpose.

STATE ECONOMIC OPPORTUNITY OFFICE (SEOO)

The State Economic Opportunity Office (SEOO) operates under the authority of the National Community Services Act of 1974. The primary purpose of the office is to act on behalf of the poor in the state to provide them access to government and the economic system.

The total proposed program expenditure of $1,009,794 is a decrease of $2,108,909, or 67.6 percent, from the current year expenditures. The General Fund request of $155,500 is the same level as the current year. The basic program is supported by 80 percent federal funds matched by 20 percent state funds.

There are two primary reasons for the major decrease in the funding level for fiscal year 1977–78. During the current year, the office has developed and implemented a Housing Intern program which trains housing loan assistants and housing loan aides to package rural housing loans for low-income people. Funding of these low interest loans is available through the Farmers Home Administration. The program has succeeded in bringing millions of dollars in federal home loan assistance into California. It will be transferred to the Department of Housing and Community Development in fiscal year 1977–78.

The second major program change involves a statewide Energy Skills program developed by the office during the current year. The purpose of this program is to train "Energy Conservation Specialists" who will learn through on-the-job training projects engaged in "weatherizing" homes for low-income elderly and handicapped persons in low-income communities. This project is funded through CETA money which is not expected to be available beyond the current fiscal year.

Since the office was first established by an executive order of the Governor in 1964, it has undergone a number of significant changes. Initially it served primarily as a review and regulatory arm of the Governor. In recent years, it has attempted to assume a posture of exercising leadership in coordinating statewide antipoverty programs. The primary need at the present time is for a stable administration in the office so that a clear direction can be established. We recommend that the office be funded at the same General Fund level for fiscal year 1977–78.

ADMINISTRATION STAFF AND TECHNICAL SERVICES

This program has as its objective the accomplishment, through departmental program managers, of the basic departmental goals.

The program budget proposes a funding allocation in fiscal year 1977–78 of $17,554,807 distributed to the other departmental programs. This is an increase of $441,535, or 2.6 percent, over the current year expenditure estimates.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

TRANSFER OF CONTINGENT FUND SURPLUS FUNDS

The Contingent Fund is accrued from fines and late charges placed on employers for late or improper submission of contributions for UI and DI. The UI Code requires that the portion of the fund which is not used for support to the department shall be transferred to the two insurance programs. The primary use of the Contingent Fund is to pay pro rata charges of overall state government operations which are charged to EDD but not allowed by the Department of Labor to be paid from federal funds.

This program displays the transfer of surplus funds from the Employment Development Department Contingent Fund to the Unemployment Fund and the Disability Insurance Fund. The budget projects the transfer of $362,547 from the Contingent Fund to the two insurance funds during 1977–78. This is an increase of $118,532, or 48.6 percent, over the current year projected transfer of funds.

Reduced Contingent Fund Needs

We recommend that Item 258 be approved in the reduced amount of $1,500,000, for a savings to the EDD Congingent Fund of $1,548,825 to maintain the experience of program support needs.

During the earlier part of the 1970s the charges that were disallowed by the federal government and were therefore charged to the EDD Contingent Fund grew at a rapid pace. However, in the past two years, new agreements have been reached with the Department of Labor which have resulted in a reduced need for the larger Contingent Fund appropriations. In 1975–76, for example, only $516,119 was needed for support to EDD. We believe that a Contingent Fund appropriation of $1.5 million will be adequate to meet the support needs during 1977–78. Therefore, we recommend that Item 258 be funded at a reduced level.

Health and Welfare Agency

DEPARTMENT OF REHABILITATION

Item 260 from the General Fund — Budget p. 667

Requested 1977–78	$11,339,419
Estimated 1976–77	10,856,514
Actual 1975–76	9,423,167
Requested increase $482,905 (4.4 percent)	
Total recommended reduction	$34,176

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Annual Report. Recommend department submit annual status report to the Legislature. 592
2. Industrially Injured Workers. Recommend report to the 597

Joint Legislative Budget Committee by December 1, 1977 evaluating the most effective methods of providing services.

3. Funding Prevocational Programs. Recommend legislative review of current policy trends toward funding prevocational and independent living skills programs. 600
4. *Directors Office. Reduce by $34,176.* Recommend reduction of six positions in director's office. 602

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation is responsible for assisting and encouraging physically or mentally handicapped individuals to prepare for and engage in gainful employment to the extent of their abilities. The department's objective is to help handicapped individuals increase their social and economic well-being and subsequently prevent or reduce public dependency. The department operates under the authority of the federal Rehabilitation Act of 1973, as amended in 1974, and Division 10 of the Welfare and Institutions Code of the State of California. The Governor's Budget identifies the following four programs administered through the Department of Rehabilitation:

1. Rehabilitation of the Disabled
2. Business Enterprise
3. Development of Community Rehabilitation Resources
4. Departmental Administration

ANALYSIS AND RECOMMENDATIONS

For the 1977–78 fiscal year, the budget proposes a total program expenditure of $96,152,452, of which $77,141,643, or 80.2 percent, is from federal funds and $11,339,419, or 11.8 percent, is from the General Fund. Reimbursements of $6,276,390 constitute 6.5 percent of the budget. An additional $1,395,000, constituting about 1.5 percent of the total budget, is from a Special Deposit Fund, derived from deposits to the Vending Stand Account under the Business Enterprise program. Table 1 summarizes the sources of funding for fiscal years 1976–77 and 1977–78.

Table 1
Summary of Funding Sources
Department of Rehabilitation
1976–77 and 1977–78

	1976–77	*1977–78*	*Percent increase*
General Fund	$10,856,514	$11,339,419	4.4%
Federal Funds	74,071,051	77,141,643	4.1
Special Deposit Fund—			
Vending Stand Account	1,272,984	1,395,000	9.6
Reimbursements	4,308,942	6,276,390	45.7
Total	$90,509,491	$96,152,452	6.2%

The total proposed expenditure for 1977–78 is an increase of $5,642,691, or 6.2 percent, over the current year. Expenditures from the General Fund are proposed to be increased by $482,905, or 4.4 percent, while expenditures of federal funds are proposed to be increased by $3,070,592,

DEPARTMENT OF REHABILITATION—Continued

or 4.1 percent. A significant increase in reimbursements is expected through a new program serving industrially injured workers.

The funding formula for the basic rehabilitation program is 80 percent federal and 20 percent state funds. Rehabilitation services to beneficiaries of social security disability insurance (SSDI) and to recipients of supplemental security income (SSI) are supported fully by federal funds. Almost one-third of the state matching total is obtained through reimbursements derived from cooperative agreements with other state and local government agencies. The budget also reflects reimbursements from anticipated new revenues from rehabilitation services purchased by insurance carriers or former employers of disabled clients who were industrially injured.

Analysis of the proposed 1977–78 program shows that the percentage of resources allocated to the various departmental activities is very similar to the expenditure pattern of the current year. There are anticipated moderate increases in the funding for the direct rehabilitation services program, the Business Enterprise program and administrative costs. Funds for the development of community rehabilitation resources are expected to decrease slightly. Table 2 compares the estimated number of personnel-years and total expenditures by program for the current year with those proposed for 1977–78.

Table 2
Department of Rehabilitation
Personnel-Years and Gross Expenditures by Program
1976–77 and 1977–78

	Estimated personnel-years 1976–77	*Proposed personnel-years 1977–78*	*Estimated expenditures 1976–77*	*Proposed expenditures 1977–78*
I. Rehabilitation of Disabled	2,213.8	2,214.5	$84,572,563	$90,225,938
II. Business Enterprise	47.9	49.8	2,542,402	2,750,650
III. Development of Community Rehabilitation Resources	40.6	40.6	3,394,526	3,175,864
IV. Departmental Administration (distributed to other programs)	(349.6)	(350.6)	(8,944,099)	(9,258,472)
Total	2,302.3	2,304.9	$90,509,491	$96,152,452

I. REHABILITATION OF THE DISABLED

This program provides direct services designed to help disabled persons overcome their physical or mental handicaps and secure employment. Vocational rehabilitation has been defined as a restoration of disabled persons to the fullest physical, mental or vocational and economic usefulness of which they are capable. Services of the department to the disabled are provided through vocational rehabilitation counselors who develop individualized, written rehabilitation plans with each client. Services are purchased as needed through case service funds which are administered by counselors according to the rehabilitation plans. During 1975–76, each rehabilitation counselor was allocated an average $39,830 in case service funds.

Historically, the vocational rehabilitation program has been regarded as an investment with a high return rather than as a costly service. The department conducts an ongoing cost-benefit analysis of the program which indicates that in a relatively brief time costs are returned to government through savings in other social programs such as welfare, Medi-Cal and social security, together with increased tax revenues through earnings of rehabilitants. However, during the past three years, the average cost of rehabilitating a disabled person has been rising significantly while the average annual benefit per rehabilitation has been decreasing. Table 3 presents a summary of the department cost-benefit analysis for persons rehabilitated during the fiscal years 1973–74 through 1975–76.

Table 3
Comparison of Cost-Benefits for Rehabilitants
Fiscal Years 1973–74 through 1975–76

	1973–74	*1974–75*	*1975–76*
Number of disabled persons rehabilitated	15,505	15,537	14,522
Estimated annual earnings of rehabilitants	$92,028,248	$96,785,416	$88,402,756
Estimated annual benefits to government	19,691,970	19,410,807	16,787,601
Federal/state costs of the program	55,104,829	72,277,915	77,824,637
Average cost per rehabilitation	3,554	4,652	5,359
Average annual taxpayer benefit per rehabilitation	1,270	1,249	1,156
Estimated average years to return investment	2.8	3.7	4.6

In 1973–74, the department estimated that because benefits will continue to be realized on an annual basis, it will take only about 2.8 years on the average for 1973–74 rehabilitants to return to the government the full cost of the rehabilitation services they received. By 1975–76, the estimated return time had increased almost two-thirds to 4.6 years.

There are a number of reasons for this trend including (1) inflationary pressures which increase the costs of rehabilitation, (2) high unemployment which reduces opportunities for the disabled to enter the labor market, and (3) the increased emphasis on serving the severely disabled.

Serving the severely disabled is the major thrust of the current administration. This emphasis is significantly changing the Department of Rehabilitation.

Year of Major Changes

The Department of Rehabilitation is just beginning to emerge from the turmoil of a year of major changes and adjustments. The new administration, which began operating in November of 1975, significantly revised the priorities for serving the disabled and dramatically reorganized the department. These actions engendered conflict both inside and outside the department. Staff morale was very low from July through November of 1976. Three employee unions were organized as a direct protest to new administrative practices. Many community and public organizations, such as the organized blind, the county welfare departments and the operators of rehabilitative facilities, openly criticized the department's actions for a variety of reasons.

Reports to the Legislature. In the *Analysis of the Budget Bill* for fiscal year 1976–77, we noted our concern that the new priority structure and

DEPARTMENT OF REHABILITATION—Continued

the organizational changes might result in many needy disabled Californians being denied services. The Legislature adopted our recommendation that the department report to the Legislature "on the effects of organizational changes, the status of productivity goals and achievements and the adequacy of existing resources for serving California's vocationally handicapped population."

In April and May of 1976, the department submitted two reports to the Legislature. The first dealt with the anticipated effects of the new priority policy and the second described the organizational changes and their expected results. The reports suggested a number of anticipated positive results which were not subsequently confirmed by operational experience. In October 1976, we explored these discrepancies with the department's director and chief deputy director. We suggested that a third report might clarify the more recent experience and serve as a means of refining the new administration's goals and practices.

On December 1, a third report was issued by the department. This document points out a number of positive achievements of the new administration and corrects some of the earlier assumptions which were proven by experience to be erroneous. It also describes the steps which are now being taken to correct policy errors and to consolidate gains that have been achieved under the new administration.

In the following discussion, we will review both the positive and the negative experiences of the new program, indicate changes which have been or are being made by the department to reverse losses and consolidate gains and recommend further changes which we believe will improve services to the disabled.

Need for Annual Report

We recommend that the department prepare and submit on December 1 of each year a report to the Legislature which discusses the experience of the past fiscal year in terms of the number of people assisted and describes the continuing needs of the physically and mentally handicapped of the state.

Vocational rehabilitation services have been maturing and changing in the last few years. The Rehabilitation Act of 1973 placed national emphasis on serving the severely disabled. The current administration of the Department of Rehabilitation has attempted to fully implement that act. This emphasis raises the following issues.

1. Number of people to be served. The policy decision that priority will be given to serving the severely disabled, if applied in a stringent manner, will result in a significant reduction in the number of people who can be rehabilitated annually (assuming the same level of resources are allocated to the program). Therefore, the policy issue concerns the proper distribution of services between the severely disabled and the less severely disabled who need rehabilitative assistance. (See "Reduced numbers reached and helped", page 593.)

2. Allocation of limited funds. Funding of the vocational rehabilitation program is limited. Given these limits, certain basic policy decisions must be made:

a. How will staff be allocated? (See "Return support to the field", page 595.)

b. What portion of the limited funding should be allocated for special projects to develop services? (See "The California Project", page 596.)

c. Are there other approaches which can be used to fund the program? (See "Industrially Injured Workers", page 597.)

d. To what degree do self-employment programs provide viable vocational opportunities for the disabled? (See "Business Enterprise", page 598.)

3. *Expansion of services.* There is growing pressure to expand rehabilitation services into prevocational and living skills training services. This raises the policy issue of the degree to which this trend is complementary or counter-productive to vocational rehabilitation services. (See Development of Community Resources, page 599.)

We believe that these and other issues should be brought to the attention of the Legislature in an annual report.

Reduced Numbers Reached and Helped

Under the new priority structure, initiated in November 1975, rehabilitation services were to be given first to the severely disabled and secondly to the moderately disabled. Because of limited resources, the more mildly disabled were denied services. A fairly detailed system relating to the degree of functional disability was designed to assure that field staff adhered to the priority system.

Under the new system, several things began to happen. First, the number of persons being accepted for services was dramatically reduced. Second, the referrals to the department began to decrease. Third, the amount of funds being obligated in plans to serve the disabled was significantly reduced.

By November 1976, it had become obvious that services were being denied to persons who were classified as mildly disabled by virtue of the level of their functional disabilities but nonetheless were in need of the services of the Department of Rehabilitation. At the same time there were caseload vacancies and unencumbered funds available to serve this group of disabled persons. Therefore, the department issued a policy statement reopening services to the "mildly" disabled who had significant vocational handicaps due to their disability. Nevertheless, the original policy has had, and will continue to have, a major impact on the productivity of the department.

Achievement Record. The basic output of the Department of Rehabilitation is measured in terms of the number of disabled persons successfully rehabilitated during a year. The annual budget presentation projects the number of rehabilitations expected in the budget year. Since fiscal year 1971–72, the department has consistently projected annual rehabilitations in the Governor's Budget at a substantially higher rate than the number achieved. Table 4 shows the projected number of rehabilitations as contained in the annual Governor's Budget, the number as revised in the

DEPARTMENT OF REHABILITATION—Continued

second year budget presentation and the actual number achieved.

Table 4
Projected Number of Rehabilitations Versus Actual Number
1971–72 Through 1976–77

Fiscal year	*Annual number of rehabilitations projected in Governor's Budget*	*Revised estimate at mid-fiscal year*	*Actual number of rehabilitations achieved in fiscal year*	*Percent of original projection achieved*
1971–72	15,800	15,646	12,990	82.2%
1972–73	18,666	15,000	15,058	80.6
1973–74	17,000	16,000	15,505	91.2
1974–75	17,000	17,624	15,537	91.4
1975–76	19,405	17,500	14,522	74.8
1976–77	17,800	14,468	—	—

As Table 4 illustrates, the department's budgeted projections of successful rehabilitations are usually reduced by the middle of the fiscal year. When the actual figures are presented, the number has been reduced even further. The current year is no exception to this pattern. Last January, the budget projected 17,800 rehabilitations in 1976–77. The 1977–78 Governor's Budget shows a revised estimate of 14,468, a reduction of almost 19 percent. We estimate that the actual number will be about 12,500 or almost 30 percent less than originally projected.

Downward Trend. Table 4 also shows the downward direction of expected rehabilitations. With the emphasis on providing services to the severely disabled, it is inevitable that the number of rehabilitations which can be achieved in a given year will be substantially reduced.

Increased Nonrehabilitated Case Closures. At the same time that there is a decrease in the number of successful rehabilitations, there is, under the new priority system, a substantial increase in the number of cases closed in a nonrehabilitated status. Table 5 compares the number of rehabilitated and nonrehabilitated case closures during the fiscal years 1974–75 through 1976–77.

Table 5
Comparison of Cases Closed Rehabilitated and Nonrehabilitated
1974–75 Through 1976–77

Status of Closure	*1974–75 Actual*	*1975–76 Actual*	*1976–77 Estimated*
Rehabilitated	15,537	14,522	14,468
Nonrehabilitated	8,493	12,921	13,355
Ratio of nonrehabilitated to rehabilitated	54.7%	89.0%	92.3%

In 1974–75, before priorities were changed, the percentage of cases closed in the nonrehabilitated status equaled about 55 percent of those closed as successfully rehabilitated. But one year after the changes in priority of services and the organizational structure, the percentage of nonrehabilitated case closures had increased to 89 percent. By the end of the current fiscal year, the department projects that the percentage will further increase to 92 percent. This means that much more of the department's limited resources are being spent for services which do not result in the client becoming employed.

Reasons for Production Decline. The department cites several reasons for the decline in productivity and the concomitant increase in unsuccessful closures, including:

(1) The current high level of unemployment places disabled workers at a greater disadvantage in the job market than they ordinarily experience.

(2) The administration has encouraged counselors to "take risks" in providing services to the severely disabled, i.e., to enter into a case plan even if the counselor has some doubt about an individual's ability to achieve the agreed upon vocational objective.

(3) The reorganization involved shifting counselors from one caseload to another. The resulting disruptions in services to clients contributed to fewer successes and increased the number of disabled who withdrew before their case plans were completed.

(4) There are additional disincentives to employment for the disabled because of increasing social benefits such as welfare, social security, Medi-Cal, etc., coupled with higher costs of living. These disincentives make it increasingly difficult for a disabled person to be able to "afford" to go to work.

Although there may be valid reasons for the apparent decline in performance, there is no systematic way for the department to present them to the Legislature. The Legislature should be apprised of major problems and developments in the department's program so that corrective action can be taken if necessary. Therefore, we recommend that the department submit an annual report to the Legislature which presents both problems and alternative solutions.

Return Support to the Field

One of the major steps of the 1975–76 reorganization was the elimination of 100 field positions among the rehabilitation counselors and their supervisors. Two significant problems developed from this action. First, because counselors are the essential resource for serving the disabled, a reduction in the number of disabled persons who could be served resulted. Second, the reduction of supervisory staff caused district offices to lose control of daily activities. In some cases, the supervisory span of control grew from five or six to as many as 10 or 12 counselors. This caused delays in the rehabilitation process because of bottlenecks created at mandatory supervisory review points.

In November the administration moved to correct these problems. Fifteen positions in the central office were identified for transfer to the field. Application was made for Public Works Employment Act funds to support 66.5 positions to serve the industrially injured. A request was made to the Department of Finance to reallocate existing financial resources to provide additional field personnel.

The budget requests a total of 123.5 new positions in fiscal year 1977–78. The new positions requested would continue those administratively estab-

DEPARTMENT OF REHABILITATION—Continued

lished in the current fiscal year. This includes 59 vocational rehabilitation counselor positions, 37 clerical positions and 3 program supervisor positions. The remaining 24.5 positions are for support purposes.

Of the added counselor positions, six will be used to strengthen services to the deaf, eight will serve the developmentally disabled and 18 will be specially assigned to district offices to develop and coordinate community resources as a support service to case-carrying counselors.

We concur with efforts to strengthen the field services. The administration should continue to review the problem of supervisory span of control to ensure that services to the disabled are provided in a timely and appropriate manner.

The California Project

The administration is seeking to improve the effectiveness of direct services to the disabled through development of innovative service delivery methods. One such project is called the California Project. The California Project involves an $800,000, two-year contract designed to provide new training techniques to persons who work with the developmentally disabled. The training technique called "Try Another Way" was developed by a professor at the University of Illinois. It has reportedly been very effective in training the developmentally disabled in repetitive assembly tasks, such as wiring a circuit board or assembling a mechanical device. The technique is designed to open new employment alternatives for the mentally retarded.

The contract has been the subject of controversy both inside and outside state government. Major criticism has come from associations of rehabilitation facilities for whom the training was particularly designed. The criticism has centered around three basic points: (1) the contract was awarded without bid, (2) it was awarded to a contractor from outside California, and (3) the department failed to notify the participating agencies of the pending contract prior to its signing. In essence, the department arranged for the training of staff in facilities without first determining whether such training was needed and desired.

The department has responded to the criticism by acknowledging its failure to properly notify participating agencies and to seek their input prior to signing the contract. Secondly, the department has pointed out that there is no competing program which has the proven results of the "Try Another Way" program. Therefore it believes it was proper to award the contract without bid and to an entity outside the state. Also, the Departments of General Services and Finance approved the no bid procedure. Most of the controversy now appears to have dissipated.

The department has established an advisory committee consisting of persons from community rehabilitation facilities. The project will be independently evaluated to determine its overall effectiveness. The major policy issue related to this program is that of cost-effectiveness. Given limited resources, how much should be spent for nondirect services and what is the long-term benefit for the disabled?

Industrially Injured Workers

We recommend that the department submit a report to the Joint Legislative Budget Committee on or before December 1, 1977 evaluating the most effective methods of providing rehabilitation services to industrially injured workers.

Chapter 1435, Statutes of 1974, (AB 760) required that vocational rehabilitation services be a regular benefit under the Workers Compensation program. The benefit became effective for all injuries which occurred on or after January 1, 1975. The Department of Industrial Relations reported that during 1975–76, there were 259,610 total disabling work injuries sustained in California. Under the program, therefore, there is a potential for substantial recovery from private insurers of the federal/state funds which the Department of Rehabilitation is currently spending for the rehabilitation of industrially injured workers.

The cost-benefit of rehabilitation services has been well documented. It is also clear from experience that the sooner a plan of rehabilitation is established after a disabling injury occurs, the better the chance for successful rehabilitation. There is, therefore, a clear advantage to early identification, referral and delivery of services to the industrially disabled. By utilizing funds from insurance programs for this purpose, more of the federal/state rehabilitation funds will be released to serve other disabled persons.

The Department of Rehabilitation is not the only agency, however, which provides rehabilitation services to the industrially injured. There are a number of private rehabilitation agencies competing with the department for the opportunity to deliver services to the industrially injured. At this time, it is not clear whether the department can compete successfully with these private agencies. The department is starting an aggressive program designed to become self-supporting through reimbursements that will be obtained from the insurance agents or the employers of the injured workers. In order to evaluate the cost-effectiveness of the department's new industrially injured worker program, we recommend that a report be submitted to the Joint Legislative Budget Committee on or before December 1, 1977 evaluating the methods of providing services.

Public Works Employment Act of 1976

In order to establish the initial phases of the industrially injured worker program, the department has applied for and been granted funding through Title II of the Public Works Employment Act. A total of $313,076 has been allocated to the department for the remainder of the current fiscal year and $469,615 for 1977–78. These funds will provide support for a total of 66.5 staff positions to establish and implement the industrially injured worker program. These positions consist of 26 rehabilitation counselors (one counselor for each of the 26 districts in the state), 31 clerk typist II positions, 3 program supervisors and supporting staff consisting of 1 medical consultant, 4.5 vocational psychologists and 1 accounting technician.

Because the department anticipates that the industrially injured worker

DEPARTMENT OF REHABILITATION—Continued

program will become self-supporting through reimbursements as it progresses, no future need for state or federal funding is anticipated.

A description of Title II of the Public Works Employment Act appears in the Budget Analysis relating to the Employment Development Department.

II. BUSINESS ENTERPRISE

This program consists of the Business Enterprise Program for the Blind (BEP) which provides comprehensive training and supervision in the operation of vending stands, snack bars, and cafeterias in public and private buildings. A new element, job development, was added to the program in the current year.

For 1977–78, the budget proposes total expenditures of $2,750,650 to support this program. Of this amount, $1,087,487 is from federal funds and $268,163 is from the General Fund. The budget also shows a total of $1,395,-000 which is appropriated from the Special Deposit Fund-Vending Stands Account. The Special Deposit Fund is supported from contributions made by the BEP operators. Each operator is required to contribute, on a sliding scale depending upon his income, up to 6 percent of his annual gross sales. These contributions are matched by federal funds.

Blind Enterprise Program. The BEP is a self-employment program available to blind clients selected by the department. During fiscal year 1975–76, the average income for BEP operators was $11,412. Table 6 shows the number of BEP stands, the gross sales and the net income to the operators for fiscal year 1975–76.

Table 6
Business Enterprise Program for the Blind
1975–76

Type of Location	*Number of stands*	*Gross sales*	*Net to operators*	*Average to operators*
Vending stands	175	$9,754,950	$2,075,002	$11,857
Food services	138	10,045,630	1,497,106	10,849
Totals	313	$19,800,580	$3,572,108	$11,412

In December 1975, the Department of Finance Program Evaluation Unit issued a report on the BEP program which identified a number of problems. The report stated that the method of selecting operators and the training program for BEP were not consistent with BEP needs or objectives. In addition, the report noted that the promotion and development of new locations and the improvement of existing locations were not based on program needs or objectives. In fact, the report found little management information available on which the department could base any decisions for ongoing program operations or improvements. It was further found that the absence of a standardized financial accounting and controls system gave opportunity for mismanagement of the program. Finally, the report pointed out that the department had not established clear procedures by which to identify and eliminate marginal locations.

The current administration has taken initial steps to eliminate many of the problems identified in the Department of Finance study. Some of the marginal locations have been eliminated. The budget document for 1977–78 calls for an increase of 25 to 30 new locations and projects the remodeling or alteration of 15 to 20 of the existing locations. Training of the operators has been transferred from the Services for the Blind Program to the BEP program thus making it more responsive to the program's needs and purposes. The department is seeking to streamline the inventory controls in order to identify and keep track of program equipment. The department is also moving to improve equipment purchasing procedures in order to maintain better controls and assure that purchases are economically advantageous to the operators.

In spite of the fact that a number of operators have benefited by the program, there have been many instances of inappropriate operator selection, poor locations, inefficient program operations, and ineffective technical assistance. Current efforts should continue to seek to establish a program which is of maximum benefit to the blind operators.

Job Development. A new program element, job development, has been added to the Business Enterprise program. This element appears in the program budget with BEP, but it is administratively separate and serves all the disabled, not only the blind.

The job development element consists of four loosely related components. One is designed to help clients establish their own businesses. A second component is engaged in developing contracts with local prime sponsors of the Comprehensive Employment and Training Act (CETA) to obtain manpower training programs for the disabled. A third component seeks agreements with industry and labor organizations to expand employment opportunities for the disabled in the private sector. Finally, there is a component which is working with the State Personnel Board in an effort to expand job opportunities for the disabled in state civil service.

The annual report of the department should contain a section on the effectiveness of the department in expanding job market and self-employment opportunities for the disabled. The primary policy issue relates to the degree to which the department can develop self-employment programs which provide viable vocational opportunities for the disabled.

III. DEVELOPMENT OF COMMUNITY REHABILITATION RESOURCES

This program attempts to develop and maintain adequate facilities and services in the community which the department does not supply directly. Examples of purchased services include rehabilitation workshops and centers, special facilities for the blind and deaf, halfway houses and alcoholic recovery houses.

The program has three basic elements: (1) technical consultation to rehabilitation facilities, (2) grant administration, and (3) removal of architectural and mobility barriers.

For the 1977–78 fiscal year the budget proposes a total program expenditure of $3,175,864, of which $2,940,691 are federal funds and $235,173 is from the General Fund. The General Fund appropriation is $6,800 more than the current year.

DEPARTMENT OF REHABILITATION—Continued

The major expenditure in this program is federally funded grants to community rehabilitation facilities. Most of the rehabilitation facilities, which are known as workshops, are designed to provide rehabilitative services to the disabled in the form of work evaluation, work adjustment, work training, work experience or long-term employment. There are also work activities centers which have a similar purpose to the workshops but tend to concentrate on the long-term maintenance needs of the disabled rather than on rehabilitation efforts.

Funding Prevocational and Independent Living Skills Programs.

We recommend that the appropriate Senate and Assembly policy committees hold hearings to review the current policy trends toward funding prevocational and independent living skills programs.

Traditionally, the Department of Rehabilitation has provided services aimed at vocational rehabilitation, i.e., services which directly relate to employment. The Rehabilitation Act of 1973 dropped the word "vocational" from its title and concomitantly mandated that priority be given to serving the severely disabled. During hearings on the act, Congress considered at length the possibility of directing more services to the disabled which are prevocational in nature such as training in skills necessary to establish and maintain an independent living arranagement. The act, however, stopped short of authorizing such services and retained the goal of vocational rehabilitation.

The department is supporting more prevocational services, especially in the area of community rehabilitation resources. For example, the department is working to alleviate the funding problems of rehabilitation workshops and work activities centers. The department may also assume the fund-management role which the regional centers now perform in regard to work activity centers. For another example, the department has funded during the current year, 10 independent living skills centers which provide prevocational services to the disabled.

We acknowledge that many of the disabled need these prevocational services. However, we are concerned that the Department of Rehabilitation may not be able to provide prevocational services without significantly diluting its effectiveness in vocational rehabilitation services. Funds which are appropriated for vocational services should not be spent for prevocational services. Many of these prevocational services should be funded through other resources such as Medi-Cal, Title XX social service funds, etc. We recommend that the Legislature review the following issues before decisions are reached.

Funding Crisis

In the past several years, a combination of forces has developed which are creating a funding crisis for rehabilitation facilities throughout the state. Sales of products produced by the workshops have not increased at a rate sufficient to offset inflation. Some counties, faced with the spending ceiling placed on Title XX social service funds, have reduced support for the facilities. United Way resources have not increased sufficiently to meet inflationary cost increases. During the past year, another major funding problem resulted from the increased cost of providing Workers' Compensation coverage. There is also the strong possibility that the funding that has been derived from the educational systems may be withdrawn.

Because of the relative shrinking of resources, the community rehabilitation facilities have been forced to turn to other financing methods such as charging fees for services rendered to disabled individuals and placing more emphasis on planned fund raising activities.

The two major funding sources of community rehabilitation facilities continue to be the Department of Rehabilitation and the Department of Health through the community regional centers for the developmentally disabled. Currently, the Department of Health and the Department of Rehabilitation are considering the possibility of the Department of Rehabilitation contractually assuming responsibility for administration of the funds now directed to community rehabilitation facilities through the regional centers. The regional centers program was created initially to provide advocacy and case management services to the developmentally disabled. The regional centers were not designed to become service providers. Therefore, such basic elements as program planning, monitoring and evaluation are not provided by the regional centers.

The Health and Welfare Agency has established a committee for the development of long-term funding for community rehabilitation facilities. It is exploring a number of possibilities. The committee recognizes that the facilities should not be totally supported by public funds. However, the severe difficulty which the facilities are experiencing in obtaining needed funding indicates that some additional public support may be needed. The California facilities are serving approximately 20,000 clients on a daily basis. The department estimates that there are potentially 120,000 persons who need such services.

One of the alternatives currently being considered by the agency and the Governor is the use of from $3 million to $5 million of the Public Works Employment Act funds to provide salaries to workers in the workshops. Because of the future funding implications of such an action, we believe this issue should be reviewed by the Legislature.

Independent Living Skill Centers

Another resource the department is developing for serving the disabled is 10 independent living skills centers which were granted innovation and expansion grants totaling $672,115 during the current year. The purpose of these centers is to provide prevocational training which would enable the disabled to live in an independent setting. We recognize that many of the severely disabled are unable to enter into a vocational training program prior to gaining skills for independent living. However, a basic policy issue is involved. We believe that funds which have been appropriated for vocational rehabilitation purposes should not be spent for services which are prevocational. We believe this issue should also be reviewed by the Legislature.

DEPARTMENT OF REHABILITATION—Continued

IV. DEPARTMENTAL ADMINISTRATION

This program includes the director's office and the four administrative divisions: Program Development, Field Operations, Program Support and Administrative Services. It provides executive direction, planning, policy determination and staff support for the operation of all department programs.

The budget proposes $9,258,472 to support this program in 1977–78, an increase of $314,373 over the current year. Under program budgeting concepts, the entire amount is charged to other programs.

Reduction of Director's Office Staff

We recommend a reduction of six positions in the director's office for a total savings of $170,880 (General Fund $34,176).

Under the current departmental administration, there has been a significant staff increase in the director's office. Between fiscal year 1974–75 and the current fiscal year, staff has grown from 15 authorized positions to 27.5, an increase of 83 percent.

The director's office has six positions which should be eliminated. Three of these are located in Los Angeles. The chief deputy director under the previous administration retains the title and salary of a chief deputy director but not the function. The organizational chart now describes the incumbent's role as Deputy Director, Allied Health Affairs. The incumbent has no direct role in the administration of the department. Inquiry into the function of allied health affairs reveals that the entire unit consists of the incumbent, a rehabilitation counselor who serves as an aide and a clerk typist. The unit is involved in what is vaguely described as coordinating medical and psychological services with field operations. There does not appear to be any real need for this effort on a departmentwide basis. We believe that this type of function can better be integrated into the program of each district office. Therefore, we recommend the elimination of the three positions.

Last year the number of legal counsel positions in the director's office was administratively increased from one to three. Inquiry into the reason for this growth reveals that there are four main functions: (1) development of civil complaints primarily in the area of mobility barriers; (2) development of a strong legislative program; (3) availability of staff to provide a variety of legal opinions related to ongoing program operations; and (4) involvement in defining and interpreting confidentiality laws.

There are both mobility barriers and transportation barriers sections in the program development division which could be doing much of the preliminary work on the development of civil suits in this area. There is a full-time high level legislative coordinator in the director's office in addition to the legal staff. Confidentiality laws have long been in existence and do not constitute a major new workload. The major workload appears to be the generating of legal opinions which have little to do with improving services to the disabled. Therefore, we recommend elimination of two legal positions.

The department administratively established a civil rights officer position and an analyst, as his assistant in the director's office. The department also has a personnel section and an affirmative action section in the administrative services division. We believe that these units can supply the necessary assistance to the civil rights officer in the director's office. Therefore, we recommend elimination of the analyst position in the director's office.

The total savings including salaries, benefits and operating expenses and equipment from eliminating these six positions is $170,880, of which 20 percent, or $34,176, is General Fund. Table 7 shows the savings resulting from each proposed position reduction.

Table 7
Savings Resulting from Proposed Position Reductions

Position classification	*Proposed salary 1977–78*	*Estimated staff benefits*	*Estimated operating expenses and equipment allocation*	*Total savings*
Chief Deputy Director	$33,216	$6,201	$3,000	$42,417
Vocational Rehabilitation Counselor	16,904	3,156	3,000	23,060
Clerk Typist II	9,384	1,752	3,000	14,136
Legal Advisor	30,684	5,729	3,000	39,413
Legal Counsel	20,460	3,820	3,000	27,280
Analyst	18,180	3,394	3,000	24,574
Total	$128,828	$24,052	$18,000	$170,880
General Fund (20 percent)				$34,176
Federal Funds (80 percent)				$136,704

DEPARTMENT OF BENEFIT PAYMENTS

General Summary

Funds for the Department of Benefit Payments are contained in six budget items and one control section of the 1977–78 Budget Bill. As shown in Table 1, the department requests a total of $1,551,453,593 from the General Fund, a $131,869,105, or 9.3 percent increase over estimated current year expenditures.

Table 1
Department of Benefit Payments General Fund Request for 1977–78

Budget Bill Item	*Purpose*	*Estimated 1975–76*	*Proposed 1976–77*	*Percentage Increase*
261	Departmental Operations	$16,550,188	$16,855,890	1.8%
262	Cash Grants: Aged, Blind and Disabled	742,278,300	824,341,300	11.1
263	Special Adult Benefits Program	6,116,300	5,609,300	−8.3
Control Section				
32.5	Cash Grants: AFDC	576,666,500	616,972,400	7.0
264	WIN Child Support	—	327,803	N/A
265	County Welfare Department Operations	68,772,000	70,124,800	2.0
266	Legislative Mandates	9,201,200	17,222,100	87.2
		$1,419,584,488	$1,551,453,593	9.3%

Health and Welfare Agency

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET

Item 261 from the General Fund — Budget p. 675

Requested 1977–78	$16,855,890
Estimated 1976–77	16,550,188
Actual 1975–76	14,597,797
Requested increase $305,702 (1.8 percent)	
Total recommended reduction	$398,361

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Attorney General Contract. Recommend approval of funds for contract with Attorney General on condition that funds are to be used for a specific purpose. 607
2. *Fair Hearing Positions. Reduce by $102,763.* Recommend deletion of 19 proposed fair hearings positions resulting in a savings of $102,763 to the General Fund, $124,892 in federal funds and $203,747 in reimbursements. 609
3. *Systems Review Bureau. Reduce by $63,609.* Recommend deletion of six requested new positions resulting in a savings of $63,609 to the General Fund, and $96,132 in federal funds and reimbursements. Recommend transfer of systems review bureau to Health and Welfare Agency or reorganization within department. 610
4. *Food Stamp Program. Reduce by $128,689.* Recommend deletion of 10 proposed new positions for a savings of $128,689 to the General Fund and $128,688 in federal funds. 611
5. Food Stamp Outreach. Withhold recommendation pending receipt of information outlining optional ways the state could meet federal food stamp outreach guidelines. 612
6. *Civil Rights Office. Reduce by $83,800.* Recommend deletion of positions added last year as a result of misrepresentation to Legislature and denial of 5.5 of 14 proposed new positions for a savings of $83,800 to the General Fund, $23,200 in federal funds and $21,900 in reimbursements. 613
7. Out-of-Court Settlements. Recommend Department of Finance approve out-of-court settlements with cost implications. Recommend legislative notification. 615
8. Child Support Collections. Recommend department develop a plan to improve the ratio of collections to collection costs. 616

9. Parent Locator Program. Withhold recommendtion on contract with Department of Justice pending receipt of additional information. 616
10. Welfare Fraud Prevention Bureau. Recommend department develop a plan to improve cost-effectiveness of the fraud recovery program. 617
11. Support Enforcement Branch. Recommend dissolution of branch, with transfer and reclassification of positions. 618
12. *Computer Services Branch. Reduce by $19,500.* Recommend deletion of three positions for a savings of $19,500 to the General Fund and $58,500 in federal funds. 619
13. Downgrading of Positions. Recommend that all 1977–78 position downgrades be permanent rather than temporary. Recommend potential salary savings of $450,000 be transferred to a new item for allocation. 619
14. Blanket Funding. Recommend blanket positions not be partially funded from salary savings and that blanket expenditures be limited to amounts appropriated by the Legislature. Further recommend a report which shows how blanket positions have been used in the past and justifies proposed 1977–78 positions. 621
15. Welfare Regulations. Recommend Joint Legislative Budget Committee approve funding for new welfare regulations that are not mandated by federal law or court order for which annual General Fund cost exceeds $500,000. 623
16. Monthly Reporting by Counties. Recommend repeal of Section 10809.5 of the Welfare and Institutions Code which requires certain reporting procedures by counties. 624
17. AFDC Aid Payments. Withhold recommendation pending receipt of May 1977 subvention estimates. 625
18. Monitoring Data Processing. Withhold recommendation on continued funding for 12 positions to monitor county welfare data processing activities pending review of a budget change proposal. 627
19. Los Angeles County Data Processing. Recommend Legislature withhold funding for the Los Angeles County Welfare Case Management Information System pending receipt and review of an in-depth report on the project. 628

GENERAL PROGRAM STATEMENT

The Department of Benefit Payments was created by Chapter 1212 Statutes of 1973, (AB 1950) and is the successor to the State Department of Social Welfare. The department's three major areas of responsibility are the administration of $4.3 billion in welfare programs, the collection of $5.5 billion in payroll taxes and the auditing of certain health care programs. To carry out its responsibilities the department has approximately 3,270 employees.

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund expenditure for the operation of the Department of Benefit Payments of $16,855,890 which is $305,702, or 1.8 percent, more than is estimated to be expended during the current year. This request does not include $8,120,638 in General Fund money which will come to the department as a reimbursement from the Franchise Tax Board. In total, the Governor's Budget requests $74,256,258 (all funds) for the operation of the department. Of the total, $52,666,063 is for salaries and staff benefits and $21,590,195, is for operating expenses and equipment.

The Governor's Budget identifies four major areas within the department; Health Operations, Employment Tax Operations, Welfare Program Operations and Administrative Support Operations. Table 1 presents the proposed expenditures and staffing for the four programs.

Table 1
Overview of the 1977–78 Operating Budget of the Department of Benefit Payments

Program	*Requested Operating Budget*	*Existing Positions*	*Requested New Positions*
Health Operations	$6,133,461	240.4	12
Employment Tax Operations	35,239,452	1,812.9	0
Welfare Program Operations	19,825,299	726.8	36.5
Administrative Support Operations	13,058,046	489.5	5.9
Totals	$74,256,258	3,269.6	54.4

Health Operations

The Department of Benefit Payments operates a program to audit certain providers of health care, handle health audit appeals and recover funds from insurance companies and other parties who have an obligation to pay all or part of the medical bills of persons eligible for Medi-Cal benefits. Staff for this program has been located in the Department of Benefit Payments since July 1, 1974, the effective date of Chapter 1212, Statutes of 1973 (AB 1950). The Health Operations program currently has 240.4 authorized positions.

The Governor's Budget requests $6,133,461 (all funds) to administer the Health Operations program, which is an increase of $416,312 or 6.8 percent over current year estimated operating expenses. Of the total request, 53.4 percent, or $3,275,944, is the General Fund share.

Health Audits and Audit Appeals

The principal activity of the Health Operations program is auditing health care providers and processing audit appeals. The major health programs audited are the Medi-Cal program, the Short-Doyle program and other programs including alcohol abuse, drug abuse, developmentally disabled, family planning, crippled children and social and rehabilitation services.

The budget proposes the addition of three positions to assist in the audit of Los Angeles County Medi-Cal billings, and one position for the processing of audit appeals. We have reviewed the projected workload and recommend approval of the positions.

Los Angeles County operates nine hospitals and 70 health clinics which bill the Medi-Cal program for health care services provided to Medi-Cal eligible patients. The county does not submit detailed Medi-Cal billings as other counties do. The method used to validate billings is to sample a large number of inpatient and outpatient cases to determine the extent and pattern of billing errors and their dollar impact. The sample findings are applied to the entire claim. The audits performed to date have adjusted downward the number of allowable patient days and allowable costs per day. The first audit covering 30 months disallowed $25 million in county charges against the Medi-Cal program. The second audit covering a six-month period disallowed approximately $9 million. The audit cost has been approximately $1 for each $85 recovered.

Drug Abuse Audit Positions

We recommend approval of three requested new positions to perform audits of local drug abuse programs.

The department proposes the continuation of two auditors and one clerical position administratively established in the current year to audit 297 local operators of drug abuse programs. The three proposed positions are 100 percent federally funded through contract with the Department of Health. With this augmentation, a total of 4.5 positions would be devoted to auditing the state's $26.6 million drug abuse program. Although drug abuse audits recover approximately $3.60 for every $1 spent, the primary audit benefit is the provision of fiscal and program information to assist program operators improve program effectiveness.

Health Recovery Bureau

The second major function of the Health Operations program is to collect money from insurance companies, nongovernmental institutions, and private individuals who owe the Medi-Cal program for medical services provided, or for overpayments received. In 1974–75 the Health Recovery Bureau collected $8,960,651. It is estimated that $10.4 million will be collected in the current year and $14.2 million in the budget year. This bureau has a favorable cost benefit ratio, collecting $10.40 for each dollar of collection cost.

Legal Services

We recommend the approval of $93,670 for contract funds to cover Attorney General and Office of Administrative Health charges for additional legal services, on condition that the funds are to be used for a specific purpose.

Recently, the Health Recovery Bureau has been represented by the Attorney General in an appeal before the Office of Administrative Hearings. This appeal involves substantial funds allegedly due the state because of overcharges by a major health care provider. The cost of the hearings resulting from this appeal is billed on a per hour basis and includes the cost of deputies Attorney General, administrative law judges, court reporters,

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

transcript preparation and special consultants (expert witnesses). The cost for the case now before the administrative law judge is approximately $83,000. The budget anticipates two additional appeals of the same nature will be filed. The two additional cases will add approximately $166,000 in fees, of which the General Fund share is $93,670.

Because the charges for the two additional cases will not necessarily follow the expenditure pattern of the first case, we recommend that the additional funds only be used for the purpose proposed.

Employment Tax Operations

The Employment Tax Division expects to collect nearly $5.5 billion in payroll taxes from approximately 500,000 employers in the state in 1977–78. The three payroll taxes collected are: state income taxes ($3.4 billion), unemployment insurance taxes ($1.6 billion) and disability insurance taxes ($498 million). The division will process nearly 3,000,000 tax returns and deposit 3.2 million checks.

The Employment Tax Division is operating with 1,829 currently authorized positions. Of this number, approximately one-third are located in the division's 37 field offices throughout the state. The balance of the workforce is located in Sacramento. The Governor's Budget requests $35,239,452 (all funds) for the operation of the department's tax collection and benefit accounting activities, an increase of $1,320,341, or 3.9 percent over estimated current year costs. The request for the Employment Tax Division is composed of $8,120,638 General Fund plus unemployment and disability insurance funds.

The Employment Tax Division has two principal functions, tax collection and benefit determination. Tax collecting locates and registers new employers, assists employers who have tax problems (887,000 contacts per year), processes three million tax returns, investigates 25,000 questionable tax returns, collects $35 million in delinquent taxes from 12,500 employers, audits the books of 25,000 employers resulting in approximately $17.5 million in tax changes, and issues 259,000 delinquent tax notices.

In addition to tax collecting, the division determines how much employment or disability insurance will be paid in disputed cases. Approximately 290,000 cases a year require a redetermination of benefit entitlements. To accomplish this task, the division must keep accurate wage records on over 7.4 million employees, and make several thousand field visits to examine employers' books.

Benefit Payments Contract

The current year contract with the Franchise Tax Board was budgeted at $7,306,986. The budget year contract is proposed at $8,120,638, an increase of $813,652 or 11.1 percent. The increase falls into three general categories: increased operating costs, workload increases and increases in the level of services for the state's personal income tax (PIT) collection program.

Increased operating costs for merit salary adjustments and a 5 percent increase in nonpersonnel operating costs total $219,063. The increase for additional workload in the personal income tax program totals $303,240 and relates to a 2.1 percent increase in the number of employers whose tax returns must be processed, and for whom other tax auditing and accounting services must be performed. The third part of the total increase relates to increased services, such as reducing the backlog of returns, performed for the PIT program.

Welfare Program Operations

Welfare Program Operations is the third major area of program responsibility identified by the Governor's Budget. The various units within Welfare Program Operations are responsible for monitoring and regulating the Aid to Families with Dependent Children (AFDC) Program, the Food Stamp Program and the SSI/SSP Welfare programs for aged, blind and disabled recipients.

Staff activities include, conducting fair hearings of county welfare departments' actions which are appealed by recipients, reviewing county casework to improve the quality of local administration, communicating with counties about various matters involving the administration of programs, producing welfare statistics and cost estimates, processing county fiscal claims, managing claim procedures and controlling county administrative costs. Table 2 shows the number of positions allocated to the various activities of Welfare Program Operations.

Table 2
Welfare Program Operations
1976–77

Activities	*Currently authorized positions*
AFDC Program Management	46
Food Stamp Program Management	37
Adult (SSI/SSP) Program Management	11.5
Quality of Casework Reviews	170
Fraud and Child Support Program Management	10
Fair Hearings Including Clerical Support	172
Legal Advice	17.5
County Claims Processing	54
Management of Claiming Procedures	22.5
County Administrative Cost Control	12
Program Statistics and Cost Estimates	82.6
Other Activities	91.7
Total	726.8

The budget proposes a total of $19,825,299, all funds, for the Welfare Program Operations, which is an increase of $42,460, or 0.2 percent, over the amount estimated to be expended during the current fiscal year. The budget proposes the addition of 36.5 positions and the deletion of 81.

Fair Hearing Positions

We recommend the deletion of 19 proposed fair hearing positions resulting in a reduction of $102,763 from the General Fund, $124,892 in federal funds, and $203,747 in reimbursements.

The department conducts administrative hearings to judge the fairness of decisions made by county welfare department personnel in handling welfare cases. Recipients and applicants for aid have the right to appeal decisions they believe adversely affect their entitlements to assistance. When a request for a fair hearing is made, the department schedules a hearing.

The department proposes to add 19 positions due to projected workload increases in the fair hearing process. The budget projects there will be approximately 40,000 appeals in the 1977–78 fiscal year. The current staff of 172 positions is based on an actual workload of 36,527 appeals in the 1975–76 fiscal year.

We have reviewed actual caseload for the first five months of the current fiscal year. If current year trends continue, the department will only receive 31,400 appeals. This is substantially below the workload capacity of the existing staff. Therefore, we see no need for the additional positions.

We are not recommending a reduction in the department's current budget despite a possible lower fair hearings workload for the 1977–78 fiscal year. It is appropriate that the fair hearings budget be adequately funded to process appeals in the required 90-day period in the event a sudden unexpected surge in appeals occurs, as sometimes happens when regulations change or the courts overrule existing procedures.

Systems Review Bureau

We recommend the deletion of six proposed positions for the Systems Review Bureau for savings of $63,609 to the General Fund, and $96,132 in federal funds and reimbursements.

We further recommend that the bureau be transferred to the Health and Welfare Agency or reorganized with a reduced scope of operations if it remains in the Department of Benefit Payments.

The Systems Review Bureau was established as a result of Chapter 1212, Statutes of 1973, (AB 1950). This legislation intended to centralize most of the 62 payment systems of the Health and Welfare Agency in the Department of Benefit Payments. The bureau was established although centralization of fiscal functions has not fully occurred.

The rationale behind the establishment of the bureau is that various problems arise within systems that have been designed to process fiscal information in the Health and Welfare Agency. The function of the bureau is to review the existing systems of processing fiscal workload, identify system shortcomings and suggest improvements.

Since its inception in September 1974, the bureau has faced serious problems of its own which have never been resolved. The bureau has been isolated within the Department of Benefit Payments and has not had the authority or resources to carry out its agency-wide mandate. Most of the projects undertaken by the bureau have been outside the Department of Benefit Payments and beyond the scope of the director's authority. To function properly a system review group should be the representative of management. In the past, this has not been the case and a good deal of time has been spent trying to establish a confidential relationship with managers whose programs were to be reviewed with the result that management was not fully aware of organizational and procedural problems within the bureaus or the results of the system review group's activities.

Another problem which has plagued the bureau is that it was designed to operate with borrowed staff. The bureau is staffed with seven high level professionals who were to act as project managers supervising loan staff. However, the loan staff has never been available in large numbers, and the managers have had to work as analysts. As a result, output of the bureau has been substantially less than originally envisioned.

Transfer Bureau to Agency

We are reluctant to see more resources devoted to systems reviews until the Health and Welfare Agency or the Department of Benefit Payments resolves some of these basic issues. Specifically, we are recommending the deletion of six proposed positions and we are also recommending that the bureau be transferred to the Health and Welfare Agency and that the agency take an active role in assigning work projects, use its authority to obtain loan staff when needed and assure open access to information. Finally, the agency should use its authority to insure that study recommendations are implemented.

If the Health and Welfare Agency does not wish to take responsibility for making the system review concept work on an agency-wide basis, we would recommend that systems review be limited to the Department of Benefit Payments, and the bureau restructured so that it has substantially fewer program managers and more analysts with a variety of technical skills.

Food Stamp Program

We recommend the deletion of 10 proposed new positions for the Food Stamp program for a savings of $128,689 to the General Fund and $128,688 in federal funds.

The department is proposing the establishment of 10 positions to determine the quality of casework done in counties with the largest food stamp programs. In each such county a random sample of cases would be selected and reviewed. The results of the study would produce a statistically valid profile of the kind and frequency of errors the county makes, e.g. providing too many or two few food stamps or providing food stamps to ineligible individuals. Determining the casework errors made in particular counties is the first step in corrective action. Currently, the department is staffed only to determine the pattern of casework errors made in the state as a whole, and cannot determine problems in particular counties.

Last year the Legislature added 63.5 positions to implement the federally required efficiency and effectiveness regulations pertaining to the quality of county administration of the Food Stamp program. It is our understanding that the state meets the federal requirements with this added staff. Improved casework would benefit the federal government because it provides the bonus value of food stamps. In our opinion, the federal government should fully fund further expansion of this portion of the administration of the Food Stamp program, therefore, we have recommended the deletion of the 10 proposed positions.

Food Stamp Outreach

We withhold recommendation pending receipt of information outlining optional ways the state could meet federal food stamp outreach guidelines.

On June 11, 1976, the Department of Finance notified the Legislature that the Department of Benefit Payments planned to fund 36 local nonprofit groups to operate a food stamp outreach program during the 1976–77 fiscal year. Local groups were to inform potential users of food stamps of the program's benefit and eligibility criteria and to assist them in applying for benefits.

Funds for the project, $645,447, were to be taken from Item 305 of the Budget Act of 1976 and transferred to Item 300, support of the Department of Benefit Payments. The funds in Item 305 were appropriated for the purpose of operating county welfare departments, not local nonprofit groups. Through a contract arrangement with the department, the funds were to be channeled to the local groups by the State Economic Opportunity Office.

When we learned of the department's action, we became concerned about the precedents of (1) using funds appropriated for county welfare department administrative functions without the express approval of the Legislature and (2) assuming a county function without legislative approval.

Legislative Counsel Opinion

In response to our inquiry on this issue, the Legislative Counsel stated that in his opinion the department did not have the authority to transfer the funds or take the outreach function from the counties without going through a noncompliance hearing process or without cancelling county contracts for the provision of eligibility and grant determination services. Because the department had not held compliance hearings or cancelled contracts, it could not use the funds from Item 305.

The Legislative Counsel's opinion was forwarded to the department. The administration decided to implement the local food stamp outreach projects. In the department's opinion, it had authority under federal law to conduct a food stamp outreach program provided the activity were properly funded.

To fund the outreach program the Department of Finance has stated that it will provide a General Fund emergency loan to cover the 50 percent nonfederal matching requirement for the first six months of the fiscal year. However, this loan is to be repaid from the anticipated unexpended balance in Item 305. Thereafter, the administration intends to use funds from the Federal Public Works Employment Act of 1976 to cover the 50 percent state matching requirement. In this way the administration plans to avoid the use of General Fund money during the last half of the fiscal year and to match federal funds with federal funds. However, General Fund money still will be used to repay the Emergency Fund loan. The Governor's Budget indicates the food stamp outreach program is budgeted at $730,220 for 1977–78.

Justification given for the project is that a number of county welfare departments have refused to implement outreach programs and that many others have inadequate programs. The department states that the county operated outreach effort might not have been in conformity with federal regulations and court rulings. Therefore, the department, wishing to avoid trial of a pending suit, initiated its own outreach effort at an estimated cost of $616,512 in 1976–77 and $730,220 in 1977–78. Although the budget proposal contains no General Fund money for the 1977–78 fiscal year, the nonfederal share of this program in subsequent years will have to be funded from the General Fund because of the termination of the Federal Public Works Employment Act of 1976 funds.

We believe a state-county food stamp outreach program could be designed which meets federal guidelines at much less cost. Federal regulations do not appear to require hiring large numbers of additional personnel if an effective outreach program can be operated by existing state and county personnel. We are not convinced that a good outreach program cannot be designed, basically within existing state and county resources. We have asked the department to supply the Legislature with information outlining optional ways which the state could meet federal food stamp outreach requirements and to discuss the cost of the various options.

Civil Rights Office

We recommend the deletion of three existing Civil Rights Office positions for a General Fund salary savings of $31,800 and the retention of the civil rights coordinator and one clerical position.

We further recommend a reduction of 5.5 positions of 14 positions requested for the Civil Rights Office for a General Fund saving of $52,000.

The department has a Civil Rights Office located in the Government and Community Relations Unit. Currently, the office consists of five positions. The budget proposes the addition of 14 positions and reorganizing the office into four specific subunits.

Program System Unit

Of the five existing positions, two were administratively established in the 1974–75 fiscal year and subsequently approved by the Legislature for the 1975–76 fiscal year. The remaining three positions were established and approved by the Legislature for the current year as part of 63.5 positions proposed for the Food Stamp program, not the civil rights program. Nothing in the justification material presented last year indicated that any of the 63.5 food stamp positions would do civil rights work therefore since the three positions are functioning in areas not authorized we recommend their deletion.

Of the 14 proposed positions requested for 1977–78, four are to be established in the Program System Unit. Two positions would perform clerical duties associated with additional professional staff. Two analysts would assist in the expanded responsibilities of the Program System Unit. Activities include regulations review and formulation, contract monitoring, correspondence, preparation of civil rights plans and contacts with the community. We recommend approval of the four positions proposed for the Program System Unit.

Discrimination Complaint Unit

The department anticipates it will have to investigate and prepare reports on 130 appeals by recipients who are not satisfied with the way the county welfare department has processed or ruled on their complaint of discrimination.

Three of the 14 proposed positions are to investigate civil rights appeals, prepare reports on the findings, and train county personnel how to investigate civil rights complaints. The department does not know how many appeals it will have to process or how much time the average case will take because the civil rights complaint procedure has been so recently established. Posters will soon be placed in county welfare department offices to inform recipients that they can make civil rights discrimination complaints about the service they received or failed to receive. These complaints are separate from the existing fair hearing procedure which focuses on disagreements over benefit entitlements.

Because there is no way to estimate the civil rights complaint appeals workload, we recommend that existing bureaus in the department conduct the necessary investigations and prepare the report of findings. Precise records should be kept to document the number of hours spent on such work. Specifically, we recommend that the Public Inquiry and Response Bureau handle as much of the investigation workload as possible by telephoning the complainant and the caseworker or social worker who is alleged to have committed the discriminatory act. We further recommend that staff from the AFDC, Food Stamp and Program Evaluation Branches, who are often in the field, do any necessary on-site interviews. Based on this proposal, we recommend deletion of the two associate governmental analysts and the staff services analyst budgeted for the Discrimination Complaint Unit.

Data Analysis and Program Evaluation Unit

A total of 2.5 of the 14 proposed positions are for a Data Analysis and Program Evaluation Unit. We recommend approval of the positions proposed for this unit. As a result of an out-of-court settlement in January 1976, the department has agreed to increase the number of bilingual public contact workers in county welfare departments or improve the use of existing biligual staff. This is being done to insure that applicants and recipients who do not adequately speak or understand English receive the same services as persons who speak English.

The out-of-court stipulation requires that if a language group constitutes 5 percent or more of the caseload, county welfare departments must have the same percentage of bilingual public contact employees in each district office as the percentage of non-English speaking persons in the office's caseload. This standard has also been written into proposed new welfare regulations scheduled for public hearing in early 1977. If adopted, the regulations will mean that a county welfare department may be out of compliance with equal delivery of services requirements if it does not have the required number of bilingual public contact workers.

Multicultural Communications Unit

A total of 4.5 of the proposed 14 positions are to be in the Multicultural Communications Unit.

The new unit would work with those counties not having adequate bilingual staff in public contact positions. The Multicultural Communications Unit staff would suggest ways to improve services to non-English speaking clients and timetables for improvement.

The Multicultural Communications Unit is also to conduct cultural awareness training for county personnel, see that civil rights posters and pamphlets are designed and printed, and arrange for translations of forms and posters. For the most part, these activities are taking place within the existing civil rights unit. In addition, once they are initiated, many of these activities will not demand the same level of ongoing staff. Therefore, we recommend 2.5 of the 4.5 positions requested for the Multicultural Communications Unit be denied.

Out-of-Court Settlements

We recommend that out-of-court settlements agreed to by the Department of Benefit Payments which have cost implications receive prior approval by the Department of Finance and the Legislature receive notification of the agreed to settlement.

As indicated earlier, the department has stipulated in an out-of-court settlement that it would perform a number of tasks that presumably would increase the likelihood that bilingual staff would be hired by county welfare departments. This settlement was one of the department's primary justifications for 14 additional civil rights employees at a cost of $351,428.

Another agreement was made with welfare rights attorneys to the effect that the state would do more to inform potential food stamp recipients of their probable eligibility for the program. Although the Food Stamp outreach agreement was not in the form of an out-of-court settlement, the negotiations that took place with welfare rights attorneys utimately resulted in a $730,000 project, and a pending suit then became dormant.

Without judging the merits of either case or the appropriateness of the agreements, it is our understanding that the Department of Finance did not approve the negotiated settlements at the time they were made. We believe that the Department of Finance should have the authority to review and approve out-of-court settlements which could have an effect on governmental costs. The Legislature should also be notified when such agreements are made. Therefore we are recommending that the following language be added to Item 261 of the Budget Act.

"Provided further that the department shall receive the prior approval of the Department of Finance for out-of-court settlements it proposes to enter into which may increase either program or administrative costs. Notification of any increased cost shall be given to the Joint Legislative Budget Committee within 10 days."

Child Support Collections Program

We recommend supplemental report language directing the department to study the current county operated child support collection system and develop a plan to improve the ratio of collections to collection costs, and report to the Joint Legislative Budget Committee by December 1, 1977.

Chapter 924, Statutes of 1975, (AB 2326) implemented a federally required child support program in California effective in October 1975. The primary goal of the program was to collect more child support payments from more absent fathers. For those families forced to rely on welfare because of the absence of the father, the program was to reduce the cost of providing aid payments. Each dollar collected from the father offsets welfare costs. The program was also intended to stop other families which do not receive public assistance from being forced onto welfare due to the father's failure to pay child support.

The major program change in the collection effort caused by the 1975 legislation was to make county district attorney's offices almost completely responsible for local collections. Prior to October 1975, county welfare departments had more involvement in collection activities. From a fiscal perspective, the major change was to inject more money into the county collection effort. In 1974–75, counties spent $17.8 million to collect $39.8 million from absent fathers which meant $1.00 was spent to collect $2.23. In the 1977–78 fiscal year, the department estimates $43.8 million will be devoted to collecting $71.2 million from absent fathers whose children are receiving public assistance. If this happens, it will cost $1 to collect $1.63.

In addition to the above expenditures, the counties will spend approximately $9 million in 1977–78 to collect approximately $72 million in child support payments from fathers whose children are not receiving public assistance. Currently the counties receive 75 percent federal reimbursement for the cost of collecting from absent parents of nonwelfare families. Because federal sharing for non-welfare collection costs is scheduled to end in 1977–78, many counties may not choose to continue the nonwelfare collection effort at the current level. If large counties decide to transfer nonwelfare staff to the welfare collection effort, the cost-to-collection ratio for the welfare program could easily decline further.

We recommend the department study the county child support collection system for welfare cases and prepare a plan to improve the ratio of cost to collections because this ratio has declined. County operating costs for this program have been escalating rapidly since October 1975, when the new child support legislation became effective.

Parent Locator Program—Department of Justice

We withhold recommendation on a requested increase of $305,329 for the Parent Locator contract with the Department of Justice pending receipt of additional information.

Currently, the Department of Justice attempts to locate absent fathers who cannot be located by local district attorneys and are failing to meet their child support obligations. The Department of Justice proposes to increase by 16 positions the staff of the parent locator unit for a total of 33 positions. The request for the increased staff totals $226,979 (all funds). The Department of Benefit Payments, which has responsibility for the child support collection program, has $305,329 in its budget to reimburse the Department of Justice for parent locator services.

We have several concerns regarding the proposed augmentation of parent locator staff which need to be resolved before we recommend approval. First, we need to know why the Department of Benefit Payments is budgeting $305,329 to reimburse the Department of Justice (all funds) when Justice is requesting an increase of $226,979 (all funds). Secondly, we need to be provided data which shows that (1) once an absent parent's address is located, the information is actually used to make a collection, and (2) the cost of expanding the location service would at least be offset by increased collections.

Welfare Fraud Prevention Bureau

We recommend supplemental report language directing the department to develop a plan for 1977–78 to improve the cost-effectiveness of the welfare fraud prevention program operated by the counties.

In 1974–75, it cost counties at least $4.7 million to collect less than $2.9 million from persons who had committed welfare fraud. In 1975–76, it cost $5.4 million to collect $3.1 million. The department should determine what action is necessary to reduce the cost of operating the Special Investigative Units located in county welfare departments and to increase recovery of public funds wrongfully obtained by recipients.

In the average month, the county Special Investigative Units (SIU's) investigate approximately 4,600 cases suspected of welfare fraud. About 80 percent of these cases are dropped, usually because no wrongdoing was uncovered or because there was insufficient evidence.

If there is evidence of wrongdoing, the case is referred to the district attorney or settled by having the recipient sign a promissory note to repay the amount wrongfully obtained. The repayments can be either in cash payments or in reduced grant entitlements. About 930 cases a month are resolved through promissory notes or judgments and liens which provide for the restitution of money wrongfully obtained. However, the repayment rate for the most recent 12 months for which precise data are available (October 1975 to September 1976) averaged less than 60 percent of the amount owed. Recently, the repayment rate has been improving.

The presumed value of the current anti-fraud program is that it deters a number of individuals from cheating the welfare program. However, the program does not efficiently recoup fraudulently obtained welfare funds because collections run considerably behind operating costs. We recommend that the department attempt to make the anti-fraud program more cost-effective, not only to save money but in order to make the program more creditable as a deterrent. Because the penalties are monetary, the effectiveness of the antifraud program as a deterrent depends in large part on how effectively the collections aspect of the program is operated.

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Support Enforcement Branch

We recommend (a) the dissolution of the Support Enforcement Branch and the transfer of the positions to the Financial Management Branch and (b) reclassification of the positions.

The Support Enforcement Branch has two small bureaus, the Child Support Bureau and the Fraud Prevention Bureau. The Child Support Bureau has two positions which have program responsibilities in the overall state and county effort to collect child support payments. The Fraud Prevention Bureau has six positions that work with county welfare department Special Investigative Units to recover funds AFDC recipients have obtained inappropriately.

We are recommending the dissolution to the Support Enforcement Branch and the transfer of the positions to the Financial Management Branch. We have recommended elsewhere in the Analysis that both the fraud prevention program and the child support collection program be improved from a cost/benefit perspective. The Financial Management Branch has staff experienced in administrative cost control problems and has general fiscal expertise. The collections process needs more emphasis in both the child support and fraud programs. The Support Enforcement Branch was created prior to federal and state legislation which made the Child Support Collection activities primarily fiscal in nature. Approximately 85 percent of the 43.5 positions which the Legislature added in response to federal and state child support legislation were placed in the Fiscal Management Branch. We see no justification for the continued division of responsibilities between different branches in the department, especially since the fiscal portion of the program is now most in need of attention.

It appears that reclassification of many of the positions in the Support Enforcement Branch would be appropriate. The classifications and salaries currently budgeted for the Support Enforcement Branch are shown in Table 3.

Table 3
Support Enforcement Branch
Authorized Positions
1976–77

Number of positions	*Current year budgeted salaries*
1 Staff Services Manager III	$26,404
3 Assistant Operations Security Officers @ $22,992 each	68,976
1 Staff Services Manager II	21,516
1 Legal Counsel	19,524
1 Staff Services Analyst	14,493
2 Sr Stenos @ $11,820 each	23,640
1 Sr. Legal Steno	10,284
10	$184,837

If the branch's positions were reclassified to fit a pattern more typical for units of similar size and responsibilities, the clerical support ratio would be reduced. (Currently, there are three clerical positions in support of seven professional positions.) In addition, the classifications of the professional positions would normally be associate government program analyst, at an approximate annual salary of $18,300, and staff services analyst, at an annual salary of about $14,500. These classifications would cost considerably less than those currently budgeted. Aside from one staff services analyst, the lowest professional classification now used is a legal counsel for which the salary is $19,524.

Computer Services Branch

We recommend the deletion of the three positions added last year to the Computer Services Branch for the child support collection program for a savings of $19,500 to the General Fund and $58,500 in federal funds.

Last year the Legislature added 43.5 positions to meet state and federal requirements in the child support collection program. Three of the positions were added to the Computer Services Branch to automate certain auditing, accounting and claiming processes which the department now performs manually for the child support program. Departmental progress in automating the manually processed workload is limited to a feasibility study. We recommend the deletion of three positions because the absence of necessary federal guidelines and county difficulties in submitting claiming data on magnetic tape appear to have indefinitely delayed the automation of the child support program.

ADMINISTRATIVE SUPPORT OPERATIONS

The fourth major departmental unit, Administrative Support Operations, is responsible for provision of computer services, budget preparation, accounting services, personnel services, centralized clerical services and other services required for the daily operation of the department. The management and decision-making functions of the department are also included within Administrative Support Operations. Table 4 shows the major functions within the organization and the number of positions currently assigned to these functions.

The Governor's Budget requests $13,058,046 (all funds) for Administrative Support Services which is a 2.8 percent increase over estimated current year expenditure.

Downgrading of Positions

We recommend that all 1977–78 position downgrades be permanent rather than temporary.

We further recommend that potential salary savings in the amount of $450,000 from the downgrades which become effective in July 1977, be transferred to a new item for allocation by the Department of Finance.

For several years, the department has listed positions in the Governor's Budget at higher classification levels than those held by incumbent employees. The result of this practice is to build excess funds into the department's operating budget for unspecified purposes.

In order to pay the employee in an overclassified position the department must take steps to temporarily downgrade the budgeted position to the employee's actual classification level. During the first six months of

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Table 4
Administrative Services Operations
Positions by Major Function
1976–77

Functions	*Currently Authorized Positions*
Policy Formulation (Executive office)	25
Computer Services	94
Departmental Accounting	66
Budget Preparation	13
Personnel Services	35.6
Centralized Office Services	111.8
Facilities Mgt. & Business Services	34.1
Internal Mgt. Studies	18
Planning activities	15
Legislative liaison	8
Training	9
Temporary help	40.4
Other	19.6
	489.5

this fiscal year the department has downgraded 795, or 24 percent, of its authorized positions.

The major effect of temporarily, rather than permanently, downgrading a position is that it leaves the decision to change the classification of the employee with the department. There is no need to go to the State Personnel Board for approval of positions restored to budgeted level because this decision-making authority has been delegated to the department by the board.

Currently the department restores many positions to budgeted level by allowing employees to take promotional examinations soon after they have served the minimum required time at a lower classification. Once employees take (and pass) the examinations, the department files the required "607" forms to restore the positions to the original budgeted level. Thus it is often not necessary for employees to wait for a higher level position to become vacant before they have a promotional opportunity. Employees who have had their positions restored to budget level normally do the same work after being promoted to the new classification as they did before taking the examination. Through December 1976, a total of 285 positions were restored to budgeted level by upgrading the classification of the incumbent employee.

The effect of requiring the department to downgrade positions permanently, rather than temporarily, is to subject its decision to reclassify positions to more outside review. The result of eliminating salary savings associated with downgraded positions is that it removes what is in effect a contingency fund for upgrading classifications or for funding other unspecified activities. Therefore, we recommend the following language be added to Item 261 "provided further 1977–78 position downgrades shall be permanent, not temporary."

The Governor's Budget requests $41,677,699 (all funds) for the 1977–78 salary costs of existing authorized positions, after the reduction for anticipated vacancies has been applied. If the overbudgeting of positions is built into the 1977–78 salary schedule at approximately the same level as the current year, then the department is overbudgeted by $1,213,000 all funds, of which the General Fund share is approximately $450,000. We recommend that this amount, $450,000 General Fund, be transferred to a new item to be allocated to the department by the Department of Finance subject to the following procedures. First, the Department of Finance would instruct the department to list all the positions that must be downgraded effective July 1977 in order to pay incumbent employees. The annual salary savings which result from the position downgrades shall be calculated including the state General Fund share. If the General Fund share exceeds $450,000 the Department of Finance would not allocate any of the funds in the special item because the overbudgeting of classifications would have totaled more than $450,000 and the department should not require the funds. If the state share of the salary savings associated with the position downgrades is less than $450,000 then the department would be entitled to some of the funds in the special item. If for example, the identified General Fund share of the salary savings was $400,000 the department would be allocated $50,000, so that the total reduction in the department's budget would relate just to the amount overbudgeted. The remaining $400,000 would revert to the General Fund.

Blanket Funding

We recommend blanket positions no longer be partially funded from salary savings or operating expenses and equipment and that expenditures be limited to the amounts appropriated, for the purposes indicated. We further recommend the development of a report which shows how blanket positions have been used in the past and justifies the proposed use of blanket positions in 1977–78. The report should be made to the fiscal committees by April 1, 1977.

The Department of Benefit Payments pays numerous personnel costs out of special funds. These funds, known as blanket funds, are used to hire temporary and part-time help for peak workload, pay overtime, employ special consultants, pay for special task force studies, and to overlap positions so that a new employee can learn the assignment of an existing employee who is leaving. Blanket funds are also used to fund special limited term projects such as a current federally funded and federally required case review project. Finally, some blanket funds such as the affirmative action blanket funds are used to pay the salaries of minority persons employed outside of a regularly budgeted position. Their salaries are paid from these blanket funds until the employee can be transferred to a budgeted position which becomes vacant.

Prior to the 1976–77 budget, we were unaware of the magnitude of blanket fund expenditures because they had not been openly budgeted or identified. Instead, funding for blanket activities had been partially concealed in the department's budget in the form of salary savings. Last year upon our recommendation, the Legislature required the department to identify blanket activities and openly budget blanket funds.

Table 5
Department of Benefit Payments Blanket Funds
1977–78 Governor's Budget

	Blanket number	*Purpose*	*1975–76 Actual*	*1976–77 Available*[a]	*1977–78 Requested*
A. Health and Welfare Operations	910	Temporary help	$867,655	$600,000	Unspecified amount
	911	Fair Hearings, (McGeorge Contract)	63,495	105,000	Unspecified amount
	920	Overtime	65,924	100,000	Unspecified amount
Subtotal for 910, 911 & 920			$997,074	$805,000	$861,497
	930	Advisory Board	1,375	7,000	7,000
	931, 940, 941	Case Review Projects	387,694	335,240	0 (Projects terminated in 1976–77)
	950	Affirmative Action up to 30 position equivalents	94,922	223,152	0
	951	33 WIN Trainees (Reimbursement)	21,639	138,821	Currently unknown
Health and Welfare Subtotal			$1,502,704	$1,509,213	$868,497
B. Employment Tax Operations	950	Affirmative Action	13,114	253,152	Unspecified
	977-988	Temporary Help and Overtime	3,002,626	1,212,166	Unspecified
Employment Tax Subtotal			$3,015,740	$1,435,318	$1,592,986
Departmental Grant Total			$4,518,444	$2,944,531	$2,461,483

[a] Reliable estimates of 1976–77 expenditures will not be available until second quarter expenditure report is completed.

The 1977–78 budget shows a total request for blanket funds of $2,416,837 from all funds. This request compares to actual expenditures of $4,537,288 in 1975–76. Because of the significant reduction we asked the department to indicate the amount of money to be allocated for each of the existing blankets. Table 5 shows how the department proposes to use the blanket funds it has requested.

It appears that the affirmative action blanket No. 950 and blanket funds for employment tax operations may not be adequately funded for 1977–78. In the past, it has been possible to shift funds, such as salary savings, to cover the cost of blanket activities not budgeted. We recommend that this practice be discontinued in 1977–78 and that blanket activities be openly budgeted but limited to the amounts appropriated by the Legislature only for the purposes indicated. If the Legislature accepts this recommendation, blanket funds would be scheduled in Item 261 of the Budget Bill by purpose, blanket number and amounts and language would be added to limit available funds to the amounts appropriated for the purpose specified.

The number of positions funded through blankets is significant (in 1975–76, 505 full-time equivalent positions were used). Yet, nowhere in the budget process is there a meaningful way to report how the positions have been used in the past or how they are to be used in the future. It is important that some form of reporting take place because (1) the number of positions funded through blankets is substantial, and (2) the department has almost unlimited authority to expend these funds. In contrast to blanket funded positions, when regularly budgeted positions are requested, the Legislature is informed of the position classification, the salary, and where in the organization the position has been used in the past and will be used in the future.

We are withholding comment on funding for blanket fund numbers 910, 911 and 912 because the Department of Finance has required the Department of Benefit Payments to prepare written justification in support of the 67 position equivalents and the $861,497 requested. This material is being prepared too late to be included in this anlaysis and we plan to review it for the budget hearings.

We recommend that the department prepare similar material for the Legislature by April 1, 1977 on affirmative action and employment tax operation blanket positions. This report should include details on what classifications have been used in which bureaus for what purposes and at what salary cost. The report should make an informed estimate of how the positions are to be used in 1977–78. We recommend that future departmental budgets provide the same amount of detail on blanket positions as on regularly budgeted positions and when changes are made that they be justified.

Legislative Approval of Regulations

We recommend that state initiated welfare regulations, which have a General Fund cost impact in excess of $500,000 annually and are not required by federal law, regulation or court order, be subject to approval

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

by the Joint Legislative Budget Committee prior to becoming effective.

Currently the Department of Finance must approve the issuance of new welfare regulations which have a cost impact. In the past, most new regulations have been issued in response to a court ruling or a change in federal law and regulation. However, a number of welfare regulations are now under consideration which have significant costs but are not mandated by court rulings or changes in federal law. If the administration does not request funding for these regulations during the departmental budget hearings, the regulations could be issued later without legislative review or approval.

We are aware of several major regulations/changes that could, if adopted, add to the cost of the welfare program. One regulation, which has had a public hearing, would exempt most income tax refunds from consideration when welfare entitlements are calculated. If adopted, this regulation would cost $5.3 million, approximately half of which would be paid for from the General Fund and the balance from federal funds. Another regulation under consideration would liberalize the welfare status of aliens who are in the country without proper documentation. It is estimated that regulation changes regarding undocumented aliens would have a $14 million General Fund cost and a $7 million county cost. Regulation changes which would liberalize the amounts of property an AFDC applicant could have and still qualify for welfare are also under consideration. If adopted, in its current form, this regulation package is estimated to cost $4,059,000 of which $1,433,000 would be paid by the state, $660,000 by the counties and $1,966,000 by the federal government.

If the Legislature believes prior legislative review and approval of state initiated welfare regulations with cost implications is appropriate, then some budget language modification is needed. We recommend that the following be added to section 32.5 and Item 263:

"Provided further that no changes in welfare rules and regulations may add to program or administrative annual General Fund costs in excess of $500,000, unless such changes are specifically required by court order or change in federal or state law, or specifically included in the appropriations of the Budget Act of 1977 or approved by the Joint Legislative Budget Committee."

Monthly Reporting by Counties

We recommend that repeal of Section 10809.5 of the Welfare and Institutions Code which requires certain reporting by counties.

Section 10809.5 of the Welfare and Institutions Code requires county welfare departments to submit a copy of the monthly Caseload Movement and Expenditure report to the Department of Finance at the same time the information is forwarded to the Department of Benefit Payments. The Department of Finance is required to make the information immediately available to the Joint Legislative Budget Committee.

When this reporting requirement was enacted in 1971, the Legislature was not receiving timely and complete data about caseloads and costs from the department. Since 1971, relations between the department and the

Legislature have improved to the point where legislative staff is provided data and estimates shortly after they are requested. Therefore, there is no longer a need to receive each county's individual report. Because there is a cost associated with providing these now unneeded reports, we recommend repeal of Section 10809.5 of the Welfare and Institutions Code.

AFDC Cash Grants and Control Section 32.5

We withhold recommendation on the appropriate amount for Section 32.5 of the Budget Bill pending receipt and review of the May 1977 subvention estimates.

The Budget Bill does not contain an item which appropriates funds for the Aid to Families with Dependent Children (AFDC) program because the Welfare and Institutions Code provides a continuous appropriation. However, Section 32.5 of the Budget Bill limits funds available to a specified amount and provides that the Director of Finance may increase the expenditure limit in order to provide for unexpected caseload growth or other changes which increase aid payment expenditures.

The budget proposes $616,972,400 in Section 32.5, which is $40,305,900, or 7.0 percent, more than is estimated to be expended during the current fiscal year. In addition to these funds, there are state costs of $8,500,000 for the current year and $16,322,100 in the budget year for local mandated costs resulting from Chapter 348, Statutes of 1976, (AB 2601). Thus, the total General Fund cost for AFDC grants in 1977–78 is estimated to be $633,294,500, which is an increase of $48,128,000, or 8.3 percent, over the amount estimated to be expended during the current fiscal year. The amount requested will be adjusted when the Department of Finance submits the May revenue and expenditure budget revision to the Legislature. The budget revision for AFDC grants will be based on the department's may 1977 subvention estimates which take into account the latest available caseload and expenditure data. We will review these estimates and make our recommendations at the time.

In recent years, we have not been able to review the May subvention estimates adequately in the short period of time between their release by the administration and their approval as part of the budget by the Legislature. The lack of review has not resulted in subsequent difficulties because the estimates produced by the department are of high quality and normally have not been adjusted outside of the Estimates Bureau of the Department of Benefit Payments. When the estimates have been adjusted we have been informed, so that the policy issue involved could be considered by the Legislature. However, the department has agreed to provide earlier access to the estimates to make a more complete outside review possible.

AFDC Caseloads and Cost Trends

The Governor's Budget projects AFDC caseload to decline by 1.4 percent in 1977–78 as shown in Table 6.

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

Table 6
1977–78 Governor's Budget
AFDC Caseload (Persons Count)

	1977–78	*Change from 1976–77*	*Percentage change*
AFDC Family Group	1,240,900	−16,500	−1.3%
AFDC Unemployed	164,100	−4,900	−2.9
AFDC—Foster Children	31,020	+970	+3.2
	1,436,020	−20,430	−1.4%

The net AFDC General Fund cost increase of $48.1 million proposed in the budget is a combination of $64.9 million in increases and $16.8 million in offset savings. The major increases are the annual automatic AFDC cost-of-living adjustment ($32.3 million) and the recent 6 percent AFDC grant increase provided by the Legislature ($27.3 million). Also contributing to increased costs are new welfare regulations ($2.5 million), the end of extended unemployment insurance benefits in California ($1.6 million), and increased foster care grants and child support incentive payments ($1.2 million).

The major offset savings are attributed to caseload decline ($11.9 million savings), increased federal sharing in the AFDC-U program ($4.3 million savings) and increased social security, minimum wage and unemployment insurance benefit payments which act to reduce welfare costs.

Improved AFDC Benefits

Chapter 348, Statutes of 1976, (AB 2601) provided a 6 percent increase in the AFDC payment standards effective January 1, 1977. Table 7 shows maximum grants for AFDC families in the current year and in 1977–78. The increases result from a combination of the annual cost-of-lving adjustment, which is tied to the inflation rate, and the 6 percent benefit increase granted by the Legislature.

Table 7
Monthly Maximum Aid AFDC-FG and U Programs
Governor's Budget Projections

Family size	*July–Dec. 1976 (Before 6 percent increase)*	*Jan.–June 1977 (After 6 percent increase)*	*July 1, 1977 (After cost-of-living increase)*	*Total increase From Dec. 1976 to July 1, 1977*
1	$157	$166	$175	$18
2	258	273	288	30
3	319	338	356	37
4	379	402	424	45
5	433	459	484	51
6	487	516	544	57
7	534	566	597	63
8	581	616	650	69
9	628	666	702	74
10	675	716	755	80

MONITORING COUNTY AUTOMATED WELFARE INFORMATION SYSTEMS

In the 1976–77 Analysis we discussed the department's plans to develop a model data processing system for use by the county welfare department. As we noted, last year, departmental justification for this and similar earlier projects was the increasing cost in which the state shared, of county automated welfare processes. These costs were approximately $6 million in 1970–71 and could approximate $20 million in the current year if the trend continues.

During last year's budget hearings we were only in partial agreement with the department's objectives regarding model systems and standards. We believed the most beneficial course of action to be an increase in the monitoring of system development efforts, particularly the Los Angeles County Welfare Case Management Information System. It was our judgment that the potential benefit from some of the other activities was minor at best.

Several budget hearings and discussions between our office and the department last year resulted in a reduction of the budget request and approval of 22 new positions. These positions were to be used for increased system review and monitoring and other activities, including the development of a data dictionary and a computer program library.

Monitoring Data Processing

We withhold recommendation on continued funding of 12 positions pending review of budget change proposal due February 1, 1977.

Since approval of the 1976–77 Budget Act, the department has reevaluated its intended use of the added resources regarding county automated welfare operations. The department's current position, with which we concur, is that the most effective use of these resources is in expanded system review and monitoring.

As a result, the department has kept only 12 of the 22 positions authorized, assigning six to the County EDP Systems Bureau and three to other county-related program areas. The other three positions are to be provided by the Department of Health on a contractual basis. Ten positions have been deleted, and they are not reflected in the proposed budget. The department has been requested to provide the Department of Finance a budget change proposal to justify continued funding of the remaining authorized positions. We will review this document and make our recommendations during the budget hearings.

Welfare Case Management Information System (WCMIS)

Los Angeles County's Welfare Case Management Information System (WCMIS) is ultimately intended to replace existing welfare information processes with a new and comprehensive computer-based system. The state is funding approximately one-fourth of WCMIS developmental costs, estimated at $2.3 million by the end of the current year.

In the 1976–77 Analysis we noted that despite the state's significant investment in WCMIS , no phase of the system was operational. However, it was anticipated that an automated centralized recipient index would be operational by spring of 1976. In fact, the index which would allow county welfare offices to access a recipient data base via remote terminals, is now

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

scheduled to be operational countywide the spring of 1977. Los Angeles County began development of the WCMIS system in 1971.

Although substantial savings to offset the developmental cost of WCMIS have been projected by Los Angeles County, the increase in the state's investment in the face of continued project delay supported our contention that the department needed to improve its review and monitoring of such county efforts. As a result of our concern about this particular project, we have met with the county's welfare and data processing management to assess actual WCMIS progress. Based on this review, which included a demonstration of the centralized recipient index and data base, we believe the county is trying to achieve county-wide implementation of this phase of WCMIS in accordance with the revised schedule. If this is accomplished, significant reductions in personnel associated with manual records handling should occur. However, if county-wide implementation does not occur as scheduled, the justification for continued state support of this costly effort needs to be examined, as discussed below.

Los Angeles County Data Processing

We recommend that the Legislature withhold approval for state funding of the Los Angeles County Welfare Case Management Information System for the 1977–78 fiscal year pending review of the department's in-depth evaluation of this project.

Because of its increasing concern regarding WCMIS costs and progress, the department has formed a study team to perform an on-site project evaluation. The team, managed by the Chief of the Program Support Branch and supervised on-site in Los Angeles by the Assistant Chief of the County EDP Systems Bureau, is composed of seven persons who will examine the project from fiscal, program and technical perspectives. We have reviewed the study plan and believe that if it is completed as proposed, the state will for the first time have an appropriate understanding of the project, including (a) its present and probable cost, (b) its relevance in terms of program benefits, (c) its likelihood of achieving projected savings, and (d) the validity of the billing mechanism with respect to welfare data processing costs shared by the state.

The study team report is anticipated by February 15, 1977. However, we would support an extension of this deadline if additional time is required. We believe that withholding approval of state support for 1977–78 is warranted pending legislative review of the department's WCMIS report.

Department of Benefit Payments

STATE SUPPLEMENTAL PROGRAM FOR AGED, BLIND, DISABLED

Item 262 from the General Fund — Budget p. 682

Requested 1977–78	$824,341,300
Estimated 1976–77	742,278,300
Actual 1975–76	641,739,955
Requested increase $82,063,000 (11.0 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. May Caseload Estimates. Withhold recommendation pending receipt and review of the May 1977 subvention estimates.	629

GENERAL PROGRAM STATEMENT

On January 1, 1974, the federal Social Security Administration assumed responsibility for direct administration of cash grant welfare assistance for California's aged, blind and disabled recipients. Prior to that time, California's 58 county welfare departments provided cash assistance to these recipients.

Under provisions of state and federal law, California supplements the basic federal Supplemental Security Income (SSI) payment with an additional State Supplementary Program (SSP) payment. Each year state supplemental payments are increased to provide recipients a cost-of-living adjustment pursuant to the Welfare and Institutions Code.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the appropriate amount for Item 262 pending receipt and review of the May 1977 subvention estimates.

The budget proposes an appropriation of $824,341,300 for the state share of the cost of aid payments to aged, blind and disabled recipients for the 1977–78 fiscal year. This is $82,063,000, or 11.0 percent, more than the amount estimated for the current year. However, the requested amount will be adjusted when the Department of Finance submits the Revenue and Expenditure Budget Revision to the Legislature in May 1977. We will review the revised estimates and make our recommendations at that time.

Benefit Entitlements

Payment standards for the SSP program are estimated to increase on July 1, 1977, from $276 a month to $296 a month in 1977–78 for aged and disabled recipients. Blind recipients' entitlements are estimated to increase from $313 to $334. The increases will be based on the change in cost-of-living from December 1975, to December 1976.

Benefit entitlements can be increased or decreased according to living arrangement. For example, if a recipient lives in another family's house,

STATE SUPPLEMENTAL PROGRAM FOR AGED, BLIND, DISABLED—Continued

the grant is reduced by approximately $69 a month. If a recipient lives alone but has no cooking facilities, he receives an additional $33 a month for meal allowances. A couple receives approximately $35 less a month than two individual recipients living alone.

Estimating Problems

The appropriation for the State Supplemental Program (SSP) is based on caseload and cost data supplied to the state by the federal government. Since the inception of this program in 1974 the Department of Benefit Payments has had a continuing problem obtaining detailed and reliable data for estimating purposes and program monitoring. Data currently being received is particularly questionable due to a number of factors. The Department of Finance believes the data used to prepare the estimate of $824,341,300 in September 1976, is more reliable than that used for the December estimate of $785,802,200. Thus, the Governor's Budget proposes the earlier of the two estimates which is $38.5 million more than the one prepared later.

It is possible that the data used for the May 1977, estimates will be no better than that used for the December 1976, estimate. If the Legislature does not appropriate enough money for the SSP program, the language of Item 262 makes it possible for the Department of Finance to add funds without the need for a deficiency appropriation. If the May estimate verifies the December rather than the September estimate, this item is overbudgeted by $38.5 million.

Cost Trends: SSP Program

The major reason for the $82.0 million increase in the cost of the SSP program is the increase in benefit levels mandated by Chapter 348, Statutes of 1976 (AB 2601). Chapter 348 provided that the state would pass through to recipients the annual cost-of-living increase given on the federal SSI portion of the grant, and would also increase grants by $3 a month. These benefit increases will cost approximately $107 million in 1977–78. However, because of certain offset savings for the state, total state costs increase only by $82 million. Caseload growth is not a major cause of the budgeted increase. The caseload is estimated at 772,700 for 1977–78, only four-tenths of one percent higher than the 1976–77 caseload.

Department of Benefit Payments
SPECIAL ADULT PROGRAMS

Item 263 from the General Fund — Budget p. 682

Requested 1977–78	$5,609,300
Estimated 1976–77	6,116,300
Actual 1975–76	2,460,624
Requested decrease $507,000 (8.3 percent)	
Total recommended reduction	$2,000,000

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
263(a)	Special Circumstances	General	$3,148,400
263(b)	Special Benefits	General	70,400
263(c)	Aid to Potential Self-Supporting Blind	General	609,400
263(d)	Emergency Payments	General	1,781,100
			$5,609,300

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. May Caseload Estimates. Withhold recommendation pending receipt and review of May 1977 subvention estimates. — 631
2. *Special Circumstances. Reduce by $2,000,000.* Recommend deletion pending release and review of new regulations. — 632
3. Emergency Payments (Uncollectable Loans). Recommend report to Legislature by April 1, 1977 as to reasons for high percentage of uncollectable emergency loans. — 632

GENERAL PROGRAM STATEMENT

Chapter 1216, Statutes of 1973, (AB 134) established a program to provide for the emergency and special needs of adult recipients. The program's special allowances, paid entirely from the state General Fund, are administered by the county welfare departments, rather than the federal Social Security Administration.

ANALYSIS AND RECOMMENDATIONS

We withhold final recommendation on the appropriate amount for Item 263 pending receipt and review of the May 1976 subvention estimates.

The budget proposes an appropriation of $5,609,300 for special adult programs which is $507,000, or 8.2 percent, less than estimated current year expenditures. In May 1977, the Department of Benefit Payments will finalize updated estimates based on the most recent caseload and cost information. The estimates will be included in the Revenue and Expenditure Budget Revision submitted to the Legislature by the Department of Finance in May 1977. We will review those estimates and make recommendations at that time.

SPECIAL ADULT PROGRAMS—Continued

Special Circumstances (Item 263a)

We recommend a $2,000,000 deletion in funds for the special circumstance program pending the release and review of new regulations.

The Special Circumstances program is intended to provide adult recipients with special assistance in times of emergency. Payments can be made for replacement of furniture, equipment or clothing which is damaged or destroyed by a catastrophe. Payments are also made for moving expenses, housing repairs and emergency rent.

Currently, recipients must spend all of their liquid assets before they can apply for emergency assistance. Pending regulations would allow them to maintain $300 in liquid assets and still qualify for this special program. Under present regulations, about 365 adult recipients a month have an emergency which qualifies them for assistance under this program. It is estimated that an additional 115 cases a month will qualify if the pending regulations are issued. This item contains $3,148,400, of which $2,000,000 is reserved to implement the new regulations which will be issued when the *Synder vs. Obledo* case is settled out of court.

Elsewhere in the Analysis we expressed our concern that regulations can be issued which add costs to welfare programs without legislative review, and we recommend that a procedure be established for legislative review. In this case, the budget contains $2,000,000 for new regulations which have not been issued relating to a court case which has not been adjudicated. The department is in the process of negotiating an out-of-court settlement with welfare rights attorneys which will determine the final provisions of the special circumstance regulations. We do not recommend that the Legislature fund a program liberalization which has not been detailed or justified by the department.

Special Benefits (Item 263b)

The special benefit program in 1977–78 is for blind recipients who have guide dogs. This program provides a special monthly allowance of $18 to cover the cost of the dog's food. The $70,400 estimate assumes 317 blind recipients a month will be eligible for this allowance.

Aid to Potential Self-Supporting Blind (Item 263c)

The Aid to Potential Self-Supporting Blind (APSB) program allows blind recipients to retain more earned income than the basic program for blind recipients as an incentive to become economically self-supporting.

This small, stable program averages 170 recipients a month. The Governor's Budget requests $609,400 for 1977–78, an increase of $30,800, or 5.3 percent, for the APSB program.

Emergency Payments (Uncollectable Loans) (Item 263d)

We recommend the department report to the Legislature by April 1, 1977 as to why a high percentage of county emergency loans are not repaid by SSI/SSP recipients.

Chapter 1216, Statutes of 1973, (AB 134) mandated that counties provide emergency loans to aged, blind or disabled recipients whose regular monthly check from the federal Social Security Administration has been lost, stolen or delayed. In the event a county cannot obtain repayment of the emergency loan, the state must reimburse the county for the loss.

Current regulations require the counties to make extensive efforts to collect the amounts owed before they submit claims to the state for the uncollected amounts. Currently, counties are issuing about 2,500 to 3,000 loans a month at an average of approximately $125 per loan. Approximately one-third of these loans are uncollectable and become the fiscal obligation of the state. The Governor's Budget requests $1,781,100 for the 1977–78 fiscal year, an increase of $378,800, or 27 percent, for this program.

The amount proposed for the budget year is substantially above the estimated expenditure for the current year. The fact that one-third of the loans are uncollectable appears excessive. Therefore, we are recommending the department report to the fiscal committees by April 1, 1977, as to the reasons for the uncollectable loans and what administrative procedures are being followed in order to collect the unpaid loans.

Department of Benefit Payments

WORK INCENTIVE PROGRAM—CHILD CARE

Item 264 from the General Fund — Budget p. 688

Requested 1977–78	$327,803
Estimated 1976–77	312,193
Actual 1975–76	304,000
Requested increase $15,610 (5.0 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Child Care Report. Recommend the Department of Benefit Payments submit an annual report which includes data on child care services funded through the AFDC and WIN programs. 634

GENERAL PROGRAM STATEMENT

The responsibility for providing nonemployment related social services to welfare recipients in the Work Incentive program (WIN), including management of child care funds, was transferred to the Department of Benefit Payments from the Employment Development Department in February 1976.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget requests $327,803, which is to be matched with $4,370,707 in federal funds and $157,831 in county funds for a total of $4,856,341 to cover the child care costs of welfare recipients enrolled in the WIN job training program. The estimated total expenditure for WIN related child care costs in the 1976–77 fiscal year is $3,121,930.

WORK INCENTIVE PROGRAM—CHILD CARE—Continued

Under existing federal and state law it is possible to reimburse a WIN enrollee's child care expenses with AFDC funds, WIN funds, or social service funds. Department policy is to encourage county welfare departments to charge the WIN program for child care services whenever possible. This policy works to the advantage of the state and counties because the federal government pays a larger share of WIN costs than it does AFDC or social service costs.

Presently, the WIN program does not pay for the child care costs of all WIN enrollees. It is the department's goal to shift as much child care cost to the WIN program from the AFDC and Social Service programs as is allowed under federal law. The General Fund request of $327,803 provides sufficient funding for the department to achieve its goal.

Approximately 5,100 children receive child care funded through the WIN program. Program guidelines allow children to be taken care of in their own homes, in small family day care homes, or in larger group day care homes, by someone employed by the parent. Children may also be placed in more expensive, professionally operated day care centers. Table 1 shows the approximate distribution of the 5,100 children by type of day care provided the child. During fiscal year 1975–76 the average cost was $49 a month for each child in WIN day care.

Table 1
Kind and Frequency of Day Care Provided by WIN Program
1975–76

Type of Day Care	*Number of Children*	*Percent of Total*
In Child's own home	2,151	42%
Family day care home	1,467	29
Group day care home	188	4
Day care center	1,294	25
Totals	5,100	100%

Child Care Report

We recommend that by November 1 of each fiscal year the Department of Benefit Payments submit to the Joint Legislative Budget Committee a statistical report of child care provided through AFDC and WIN social services programs in the welfare system. The report should describe: (a) Characteristics of children and families served (e.g., distributions by income levels, children's ages, marital status of parents, and family size); (b) types of child care used (e.g., in-home care, family day care, day care center); (c) child care costs (e.g., average overall hourly and monthly costs, costs by type of care); and (d) total annual expenditures under each program.

It is estimated that subsidized child care is provided annually to between 60,000 and 80,000 children in California directly as an Aid to Families with Dependent Children (AFDC) work-related welfare expense, and to approximately 5,100 children under the Work Incentive (WIN) program. Both types of child care are administered by County

Welfare Departments and funded at the state level through the Department of Benefit Payments (DBP).

DBP currently is not required to report information about any of these types of child care on a systematic basis. However, such information is essential in order that accurate estimates can be made of the (a) total number of children being served in subsidized child care in the state, (b) total expenditures for subsidized child care, and (c) differences in the types and costs of care being provided through various delivery systems.

Child care is also provided to approximately 70,000 children through the Department of Education, and an annual statistical report is required for that child care. Our recommendation would require annual reporting of similar types of data by DBP. We believe the two agencies should coordinate their reporting efforts to ensure comparable information. We have discussed agency coordination under Item 292.

Department of Benefit Payments

ADMINISTRATION OF COUNTY WELFARE DEPARTMENTS

Item 265 from the General Fund — Budget p. 684

Requested 1977–78	$70,124,800
Estimated 1976–77	68,772,000
Actual 1975–76	67,094,685
Requested increase $1,352,800 (2.0 percent)	
Total recommended reduction	Pending

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
265(a)	AFDC Administration	General	$55,402,300
265(b)	Special Adult Programs Administration	General	490,800
265(c)	Food Stamp Administration	General	13,617,400
265(d)	Emergency Payments Administration	General	614,300
			$70,124,800

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. May Caseload Estimates. Withhold recommendation pending receipt and review of May 1977 subvention estimates. 636
2. State Participation in Cost-of-Living Increases. Recommend system for state participation in county salary and benefit increases with incentives to counties which have successful administrative cost control programs. 638

ADMINISTRATION OF COUNTY WELFARE DEPARTMENTS—Continued

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's share of costs incurred by counties in making eligibility determinations and benefit payments in the AFDC and Food Stamp programs. It also contains the funds for the administration of the special benefit and emergency payments programs for aged, blind and disabled recipients and funds for the district attorneys' offices serving the AFDC child support collections program.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the appropriate amount for Item 265 pending receipt and review of the May 1977 subvention estimates.

The budget proposes an appropriation of $70,124,800 as the state share of various administrative costs of county welfare departments, which is an increase of $1,352,800, or 2.0 percent, over the amount estimated to be expended during the current fiscal year.

In May 1977, the Department of Benefit Payments will update county administrative cost estimates for the 1977–78 fiscal year based on the most recent administrative expenditure claims and workload data. Upon completion of these updated estimates, the Department of Finance will submit a budget letter changing the amount of the request. We will work closely with the department to review data and estimating methods. If this item is again to be a closed-ended appropriation used in conjunction with a cost control plan, it is important that it be carefully budgeted and that the data and assumptions used to develop the appropriation be available for detailed review.

The Governor's Budget projects (as shown in Table 1) that total county welfare department operating costs for the AFDC, Food Stamp and Adult programs will be $342,179,900 in the 1977–78 fiscal year, an increase of $11,996,600, or 3.6 percent over the amount estimated to be expended during the current fiscal year. This total expenditure estimate assumes that AFDC and Food Stamp workloads will decline slightly thereby, under

Table 1

Total County Welfare Department Administrative Costs for the AFDC, Food Stamp and Adult Eligibility Determination Casework and Child Support Collection Activities [a]

	1976–77	*1977–78*
1. AFDC Administration		
(a) AFDC eligibility casework	$208,934,000	$206,177,140
(b) Child support collections (District Attorneys' offices)	50,626,300	53,581,960
2. Food stamp administration	69,001,100	70,634,900
3. Adult programs administration		
(a) Special adult programs	1,022,200	532,000
(b) Emergency payments	579,600	614,300
	$330,183,300	$342,179,900

[a] Excludes costs of eligibility determinations for Medi-Cal cards, and county general assistance programs. Also excludes cost of all social services provided by counties.

provisions of the cost-control plan, reducing the number of required county staff and operating costs. The net increase results from the inclusion in the budget of a six percent cost-of-living adjustment. Because the federal government will now provide assistance to aged, blind or disabled persons who own a house valued at more than $25,000, there is no longer a need for a special state funded, and county administered Excess Value of Home program. The termination of this county administered program will reduce General Fund administrative costs by approximately $469,000 in 1977–78.

COUNTY ADMINISTRATIVE COST CONTROL

The Legislature required the department to formulate and implement a plan to control the growth of county welfare department administrative costs in fiscal year 1975–76. The department responded to the legislative mandate in a positive manner. Within four months after the start of the fiscal year the department created a small but effective cost control unit, produced a management information system and worked with counties and other outside groups to formulate an approach to administrative cost control.

There are three basic principles in the administrative cost control plan adopted by the department. First, there are to be no reductions in the number of cases carried by individual eligibility workers and each county is frozen at a base year level of worker productivity. Departmental approval is required to change productivity standards. Secondly, certain low productivity counties are expected to increase the number of cases handled per worker. By 1977–78 low productivity counties are to be in the average range in the AFDC program. Thirdly, counties which have high costs for clerical services, data processing, rent, administrative service and other support items are to improve 5 percent each year until the problem is corrected. A county which spends more on support costs than it does on the salaries and benefits of its eligibility workers and first line supervisors is defined as a problem county in terms of support costs.

We will issue a report on the first year's operation of the cost control effort indicating that in 1975–76, the upward trend of county administrative costs was significantly slowed. If prior year growth trends in administrative costs had continued unabated, we estimate AFDC administrative expenditures would have been approximately 9.5 percent higher than actually experienced, and food stamp costs would have been approximately 19.4 percent higher. If the administrative cost control effort had not been effective, we could not have expected to see the modest increases now being projected for 1977–78 county administrative costs.

An important finding regarding the administrative cost control plan was that several large counties did not appear to place much emphasis on the program. If these counties continue in the current year to be out of conformity with the provisions of the administrative cost control plan, it may be necessary for the Legislature to consider stricter penalties for poor performance.

COST-OF-LIVING ADJUSTMENTS

We recommend that state participation in salary and benefit increases for counties which fail to meet the productivity requirements of the cost control plan be limited to the percentage increase given state employees, 6 percent or the percentage change in the Consumer Price Index, whichever is the lowest.

For counties which meet the plan's productivity requirements, we recommend state participation in salary increases of up to the 6 percent budgeted, or up to the percentage increase given state employees, whichever is greater, and we recommend full participation in benefit increases within sharing ratio limits.

The budget proposes that any county welfare department which increases its salaries and benefits by more than 6 percent does so without state fiscal participation, i.e., the state would participate in salary and benefit increases and other operating cost increases up to a maximum of 6 percent.

We recommend a dual system for cost-of-living increases because there should be greater incentives for counties to implement successful cost control efforts. For counties which do not reach their cost control plan requirements, we recommend an increase to compensate them for the percentage increase given to state employees, or 6 percent, or the percentage change in the Consumer Price Index, whichever is the lowest. Between June 1977 and June 1978, the Consumer Price Index is anticipated to increase by 5 percent. The state employee percent is not determined yet. This percentage increase would apply to salaries, benefits and other operating expenses.

For counties which have successful cost control efforts, we recommend the state participate in salary increases up to 6 percent or up to the percentage salary increase given state employees, whichever is greater. In the current year the state gave its own employees a salary and benefit increase of 8.3 percent, composed of the $70 flat salary increase, special adjustments to selected classes and benefit improvements. However, state fiscal participation in county salary and benefit increases was limited to a maximum of 6 percent.

We recommend full state participation in county employee benefit increases in those counties with successful cost control programs for two reasons. First, some counties negotiated benefit packages with automatic annual increases before the cost-control plan became effective. It does not appear appropriate to refuse to pay the state share of employee benefit increases negotiated before the cost control plan was in force. Secondly, Los Angeles County, for example, did an excellent job of controlling administrative costs in 1975–76 and in fact substantially contributed to the overall state improvement. A limitation on state participation in benefit increases would be detrimental to Los Angeles County. It would appear to be inequitable to penalize a county in light of the improvements it has made.

Department of Benefit Payments
LEGISLATIVE MANDATES

Item 266 from the General Fund — Budget p. 685

Requested 1977–78	$17,222,100
Estimated 1976–77	9,201,200
Actual 1975–76	233,893
Requested increase $8,020,900 (87.2 percent)	
Total recommended	Pending

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
	Reimbursement of Local Costs for Mandated Expenditures		
266(a)	Unemployment Insurance	General	$900,000
266(b)	Aid to Families with Dependent Children	General	16,322,100
			$17,222,100

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. May Caseload Estimates. Withhold recommendation pending receipt and review of May 1977 subvention estimates.	639

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the appropriate amount for Item 266 pending receipt and review of the May 1977 subvention estimates.

Various jurisdictions of local government including school districts, special districts and municipalities reimburse the Unemployment Insurance Fund for the actual cost of unemployment insurance benefits received by their former employees. Because of liberalized benefit entitlements, unemployment insurance cost to local government has been increasing. However, because the state mandated the benefit increases, it must pay the increased local cost pursuant to provisions in the Revenue and Taxation Code. For 1977–78, the Governor's Budget requests $900,000 for such unemployment insurance reimbursements. Part of the request, $370,578, is intended to cover unpaid reimbursement obligations for 1975–76 and 1976–77 resulting from previous insufficient appropriations. The balance, $529,422, is the estimated amount necessary to cover 1977–78 unemployment insurance reimbursement obligations.

The Legislature increased the AFDC welfare payments standard by 6 percent effective January 1, 1977. Normally counties pay a portion of AFDC grant costs. However, in this case, the state has an obligation to reimburse counties for the increased local share of the 6 percent grant increase.

The budget requests $16,322,100 for the 1977–78 fiscal year to reimburse

LEGISLATIVE MANDATES—Continued

counties for their portion of the cost of the January 1, 1977, AFDC grant increase.

The proposed $16,322,100 increase is based on the department's December 1976 estimates. The requested amount will be changed when the Department of Finance submits the Revenue and Expenditure Budget Revision to the Legislature in May 1977 and we will review these estimates.

Health and Welfare Agency

DEPARTMENT OF CORRECTIONS

Items 267–273 from the General Fund — Budget p. 692

Requested 1977–78	$235,403,026
Estimated 1976–77	222,610,103
Actual 1975–76	199,218,713
Requested increase $12,792,923 (5.7 percent)	
Total recommended reduction	$3,971,509

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
267	Departmental Operations	General	$229,148,189
268	Community Release Board	General	3,447,303
269	Workers' Compensation—Inmates	General	22,600
270	Transportation of Prisoners	General	220,000
271	Returning Fugitives from Justice	General	770,000
272	Court Costs and County Charges	General	1,178,934
273	Local Detention of Parolees	General	616,000
			$235,403,026

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *New Positions for Security Housing Units. Reduce Item 267 by $591,409.* Recommend deletion of 36 new positions requested for security housing units. 644
2. *Regular Visiting Program. Reduce Item 267 by $13,588.* Recommend deletion of one correctional officer position requested for Folsom State Prison. 645
3. *Parole Attrition Program. Reduce Item 267 by $1,115,390.* Recommend deletion of 84 temporary help (professional) and 12 temporary help (clerical) positions for parole services. 649
4. *Community Correctional Program Redirection. Reduce Item 267 by $2,751,122.* Recommend deletion of the entire program. 650
5. *Inmate Trials. Increase Item 272 by $500,000.* Recom- 651

mend augmentation to reflect needs of this expenditure category.

GENERAL PROGRAM STATEMENT

The Department of Corrections, established in 1944 under the provisions of Chapter 1, Title 7 (commencing with Section 5000) of the Penal Code, operates a system of correctional institutions for adult felons and nonfelon narcotic addicts. It also provides supervision and treatment of parolees released to the community to finish their presribed terms, and advises and assists other governmental agencies and citizens' groups in programs of crime prevention, criminal justice and rehabilitation.

ANALYSIS AND RECOMMENDATIONS

To carry out its activities, the department operates 12 major institutions, 19 camps, two community correctional centers and 60 parole units. The department estimates these facilities and services will provide for an average daily population of 21,585 in institutions and 15,090 on parole (including felons and nonfelon drug addicts).

Impact of Determinate Sentencing Act of 1976, Chapter 1139, Statutes of 1976 (SB 42)

The projected institution and parole average daily populations reflect the department's evaluation of the impact of Chapter 1139, Statutes of 1976 (SB 42), known as the Determinate Sentencing Law. This act, effective July 1, 1977, abolishes the existing indeterminate sentencing law under which the term of penal incarceration and parole supervision may be fixed and subsequently reset by the Adult Authority for adult male felons and by the Women's Board of Terms and Paroles for adult female felons. These entities will be replaced by a single agency, the Community Release Board, upon the operative date of the act.

The Determinate Sentencing Law (SB 42) establishes three separate sentencing choices (for example, two, three or four years or four, five or six years) for most offenses and death or life imprisonment with or without the possibility of parole as specified for other offenses. The law provides that the sentences shall be set by the trial courts and directs that the middle sentence shall be given unless specified aggravating or mitigating circumstances are set forth prior to or at the time of sentencing and found true by the court as a basis for setting the lesser or greater term prescribed for the offense. The primary sentence may be increased for prior convictions or other circumstances as specified in the law. Trial courts will not be required to sentence all felons to prison under this legislation and will retain the right to dispose of cases by imposing a fine, a county jail term, probation or by suspending the imposition or execution of the sentence as provided by law.

SB 42 also provides for a reduction of up to one-third of the sentence imposed, conditioned upon the good behavior and program participation of the inmate. Three-fourths of the possible sentence reduction relates to good time served and one-fourth to program participation. The term of parole after the new sentencing law becomes effective will be limited to one year for determinate sentences and to three years for those life-term cases in which parole is permitted. While the new act will result in a

DEPARTMENT OF CORRECTIONS—Continued

substantial reduction in parole population, its impact on the institutional and parole programs has not been assessed fully and to some extent may be determinable only after experience is gained under it. The presently anticipated budgetary implications of the measure are discussed more fully in subsequent program sections of this analysis.

The proposed budget for this department generally provides for continuation of previously authorized institution programs with some requested program enrichment as discussed later. The department will propose changes in parole programming during hearings on the 1977–78 Governor's Budget. It also has initiated a review of the institutional programs to assess the potential impact of the act for inclusion in the 1978–79 Governor's Budget. Because of the workload involved and the fact that SB 42 was enacted late in the 1976 Legislative Session, it was not possible to complete those program reviews for inclusion in the budget document.

The total operations of this department, the Community Release and the Narcotic Addict Evaluation boards and special items of expense from all funding sources (General Fund, special and federal funds and reimbursements) are summarized in Table 1.

Table 1
Budget Summary

	Estimated	Proposed	Change from Current Year	
Funding	*1976–77*	*1977–78*	*Amount*	*Percent*
General Fund	$222,610,103	$235,403,026	$12,792,923	5.7%
Correctional Industries Revolving Fund	16,573,213	17,045,086	471,873	2.8
Inmate Welfare Fund	5,763,563	5,964,243	200,680	3.5
Federal funds	42,063	42,063	-	-
Reimbursements	2,013,425	1,813,425	−200,000	−9.9
Total	$247,002,367	$260,267,843	$13,265,476	5.4%
Program				
I. Reception and Diagnosis	$2,658,612	$2,708,660	$50,048	1.9
Personnel-years	126.7	125.1	−1.6	−1.3
II. Institution	$203,979,520	$213,374,138	$9,394,618	4.6
Personnel-years	6,788.4	6,835	46.6	0.7
III. Releasing Authorities	$2,947,865	$3,592,130	$644,265	21.9
Personnel-years	78.2	77.3	−.9	−1.2
IV. Community Correctional	$25,546,948	$24,741,353	$−805,595	−3.2
Personnel-years	878.3	785.8	−92.5	−10.5
V. Administration (Undistributed)	$8,605,488	$10,315,506	$1,710,018	19.9
Personnel-years	253.4	302.1	48.7	19.2
VI. Special Items of Expense	$3,263,934	$2,784,934	$−479,000	−14.7
VII. Community Correctional Program Redirection	-	$2,751,122	$2,751,122	-
Totals	$247,002,367	$260,267,843	$13,265,476	5.4%
Personnel-years	8,125.0	8,125.3	.3	-

Although departmental expenditures from all funding sources listed in Table 1 are projected to increase by $13,265,476 (or 5.4 percent over the current year), the proposed General Fund portion will increase by $12,-792,923 or 5.7 percent. This increase in General Fund expenditures is related to various budget adjustments which will be discussed in relation to the analysis of each program. Table 1 also reflects relatively minor increases in the expenditures of the Correctional Industries Revolving Fund and the Inmate Welfare Fund because of increased personnel costs and price increases.

I. RECEPTION AND DIAGNOSIS PROGRAM

Through four reception centers, the department processes four classes of persons: those committed to the department for diagnostic study prior to sentencing by the superior courts, those sentenced to a term of years, those returned because of parole violation and nonfelon addicts.

The department provides the courts, on request, a comprehensive diagnostic evaluation and recommended sentence for convicted felon offenders awaiting sentencing. Little is known about newly committed felons or nonfelon addicts and there is thus a need to evaluate the individual for suitable program determinations and proper institutional assignment. The new felon commitments are received at reception centers located adjacent to and operated as part of regular penal institutions for males at Vacaville and Chino, for females at Frontera, and for nonfelon addicts at Corona.

The proposed expenditure of $2,708,660 for this program is $50,048 or 1.9 percent above estimated current-year expenditures. The increase represents merit salary adjustments and price increases to continue the existing program level.

II. INSTITUTION PROGRAM

This program includes the department's 12 institutions, which range from minimum to maximum security, including two medical-psychiatric institutions and a treatment center for narcotic addicts under civil commitment.

Major programs include 23 industrial manufacturing operations and seven agricultural enterprises which seek to reduce idleness and teach good work habits and job skills, vocational training in various occupations, academic instruction ranging from literacy classes to college correspondence courses, and group and individual counseling. The department will also operate 19 camps which will house an estimated 1,170 inmates during the budget year. These camp inmates perform various forest conservation, fire prevention and suppression functions in cooperation with the Division of Forestry. The institution program will provide for a projected average daily population of 21,585 inmates in the budget year, an increase of 390 inmates over the current year.

Although the Governor's Budget generally proposes continuation of the existing program level (with some exceptions discussed herein) SB 42 may necessitate adjustments in some programs, such as academic education, vocational training, counseling services, etc. At least a part of inmate participation in such programs in the past has been at the urging of the term-setting and paroling agencies and the desire of the inmates to obtain a favorable release date because of program participation. As previously noted, under SB 42 the determinate sentences may be reduced up to one-third by the department for good behavior and program participation. Denial of this early release time is subject to appeal and hearing before the Community Release Board.

The act requires that a prison official and the inmate sign a document within 14 days of the commencement of the prison term outlining the conditions the inmate must meet to receive credit for good time and program participation. Such credit accumulates at the rate of four months for each eight months served in which the time-off credits are earned. Loss of credits in one eight-month segment has no impact on time-off credits earned in other periods. The four-month credits are earned on the basis of three months for good behavior and one month for program participation. The inmate need not be successful in the prescribed program or assignment to earn time-off credits but must make a reasonable effort to participate.

The conditions specified for earning time-off credits may be modified by:

(1) Mutual consent of the prisoner and the Department of Corrections.
(2) The transfer of the inmate from one institution to another.
(3) The department's determination that the prisoner lacks adaptability or success in a specified program or assignment. In this case, the inmate will be entitled to a hearing on the decision.

The department proposes an expenditure of $213,374,138 in the budget year, which is an increase of $9,394,618 or 4.6 percent over estimated current-year expenditures of $203,979,520 for this program. The budget-year and current-year expenditures substantially exceed the 1975–76 fiscal year expenditures of $184,802,567 primarily because of population, price and salary increases and program expansion.

Increased Programming—Security Housing Units

We recommend deletion of 36 new positions proposed to enrich programs in restricted housing units for a savings of $591,409 (Item 267).

The restricted housing units, including security housing, protective custody and management control units, contain the system's most difficult management cases which must be segregated from the general population for safety or disciplinary reasons. The 36 requested positions include two vocational instructors, one recreation specialist, and one occupational therapist to be assigned (one each) to four of the five restricted housing units. The remaining 32 positions are correctional officers to be distributed to each of the five units to provide increased recreation for these inmates.

Inmates are assigned to security housing units for disciplinary reasons because of their own volitional acts. The fact that they spend more time locked in a cell than the general population should encourage behavior modification so they can return to the more desirable environment of regular housing and programs.

Moreover, implementation of SB 42 provisions may result in a significant reduction in security housing requirements because the possible loss of good time should act as a deterrent to unauthorized conduct. In recent years, additional custody positions have been authorized and recreation yards have been modified to provide more out-of-cell time and increase recreational activities for security housing units. In the 1972–73 and 1973–

74 budgets, the department was authorized an additional 434.3 correctional officer positions to augment overall security based on comprehensive surveys made by the department to eliminate staffing deficiencies in the security element of the institution program. For these reasons, additional security coverage does not appear to be justified. Current restrictive housing unit staffing should be adequate to provide a reasonable amount of out-of-cell exercise. The services of the proposed new vocational instructors, recreational specialists and the occupational therapist for the limited number of eligible inmates in security housing units should be provided by currently authorized staff to the institutions.

It should also be noted that the request for these new positions is based on current operations which may be significantly changed during the budget year when SB 42 becomes operative, and some instructional time now devoted to the general population may become available because of a voluntary decline in education program participation.

Increased Staff for Inmate Visiting

We recommend the deletion of one correctional officer requested for inmate visiting activity at Folsom State Prison for a savings of $13,588 (Item 267).

The department is requesting 11 correctional officer positions to permit an increase in the number of hours and days available for inmate visiting with authorized visitors. The staff would be assigned to various institutions as required. Included is one position for Folsom State Prison which is not necessary because the scheduled closure of the prison ranch will provide a position for this purpose.

The proposed expansion of visiting hours and days is based on work-load requirements reflecting increased numbers of persons visiting prisoners and a desire not to curtail unreasonably the length of visits during the normal working day, especially for those who have travelled substantial distances for this purpose. The visiting program appears to be beneficial in reducing inmate tensions and resulting "acting out" behavior and tends to maintain favorable family contacts. We recommend approval of the remaining 10 positions for expansion of the regular visiting programs.

Other New Positions and Program Adjustments

The department is requesting other new positions and program increases for the institution program which we recommend for approval as follows:

Program Detail	*Total Cost*
1. Provide pay or compensatory time off at one and one-half times normal rate for holidays worked as required by the State Personnel Board.	$842,553
2. Replace deteriorated food service equipment not covered by the normal equipment replacement allotment.	330,000
3. Improve psychiatric treatment for the most acute psychotics at the California Medical Facility at Vacaville. This request includes 18.2 nursing and medical technical assistant positions, allocated over a three-floor treatment unit for three shifts on a seven-day week	

DEPARTMENT OF CORRECTIONS—Continued

basis, to provide out-of-cell treatment and recreation programming for psychotic inmates now confined to their cells 20–23 hours per day.	304,000
4. Provide overtime pay to staff who supervise meetings of approximately 74 inmate self-help groups such as Alcoholics Anonymous, Toastmasters, cultural groups, etc. The overtime pay will aid in recruitment of sponsors, reduce sponsor turnover and thus add stability to the operation of these group meetings participated in by approximately 9,000 inmates. The funds will be allocated to 10 separate institutions.	100,000
5. Increase by 1,000 the number of inmate job assignments for which wages are paid. Adoption of this request would result in a total of 7,241 pay positions out of a total of 8,732 institution inmate job assignments. This is a continuation of the legislatively approved trend in recent years to increase the number of inmate pay positions. Inmate pay provides a modest income (pay ranges from 6 cents to 35 cents per hour) to make canteen purchases and/or to provide some cash upon release to the community.	149,040
6. Workers' Compensation benefits for inmates as required by Chapter 1347, Statutes of 1976 (SB 627)	22,600
7. Family Visiting program—provide one correctional officer at each of 10 institutions to handle existing workload plus program expansion authorized in the current year and proposed for the budget year.	131,640
8. Corrections Decisions Information System—provide clerical positions to permit conversion of the manual records system to electronic data processing as discussed later in our analysis of the administration program.	200,832
9. Increased capacity—32.2 new positions (some part year) to permit opening of presently closed housing facilities because of population increases at the Institution for Women and the California Rehabilitation Center (some of these positions are being added administratively in the current year)	392,589
10. Miscellaneous workload—11 positions for various institutions. Nine of these positions have been deleted as required by Section 20, Budget Act of 1976, because of extended vacancy due to recruitment problems and other reasons. The positions were approved originally on a workload basis. The remaining two positions are also for workload increases.	130,559

Other than the new position costs, the increased expenditures for this program are related primarily to merit salary adjustments, price and operating expense increases.

III. RELEASING AUTHORITIES

Higher Costs for Community Release Board

As noted earlier, SB 42 replaces the Adult Authority and the Women's Board of Terms and Paroles with a Community Release Board. The board will have nine members, all appointed by the Governor with the advice and consent of the Senate. Its costs will exceed those of the boards it replaces for a number of reasons as discussed below.

Under the existing indeterminate sentencing law, the parole boards review all felony cases committed to the custody of the Director of Corrections to fix the term of imprisonment and parole within limits established by law. These term-setting boards have the authority to re-set the length of incarceration and parole supervision at will as long as the total sentence does not exceed the legal maximum prescribed by law.

SB 42 transfers the term-setting function to the trial courts with prescribed sentences as discussed previously. The Community Release Board will review, within one year of commitment, the sentences of all persons committed to the department for the purpose of ascertaining whether specific sentences are out of line with sentences received by other inmates for similar offenses. The board will have the authority to return cases to the trial courts for resentencing when it determines sentences are disparate, and it will also set the term of incarceration for those persons still committed for life with the possibility of parole. The up to one-third reduction in sentence for good behavior and program participation will be a determination of the department subject to review by the Community Release Board on appeal of the inmate. Indigent inmates who are adversely affected by these decisions will be entitled to legal counsel under SB 42.

Currently, the parole period of each inmate is fixed by the parole boards and the parolee may be reincarcerated and rereleased to parole by the paroling authorities for cause, subject to appropriate hearings as required by law. The 12-month maximum parole period under SB 42 applies even if the parolee is reincarcerated in a state facility for parole violation; in such cases the parole period continues to run during the length of the reincarceration. The Community Release Board must hold parole revocation hearings prior to reincarceration for parole violation. Additionally, all inmates incarcerated prior to July 1, 1977 must have their sentences redetermined by the board as specified under SB 42 within 90 days of the operative date of the bill. Those inmates whose period of incarceration served prior to July 1, 1977, exceeds the term which they would have received under SB 42 will be subject to immediate release. These sentences and releases must be reviewed and set by the new board, and indigent inmates are entitled to legal representation in this process pursuant to SB 42.

For these reasons and because of the undetermined but probably substantial workload involved in the transition from indeterminate to determinate sentences and in recognition of some new workload, the Governor's Budget proposes funding this board at $3,592,130, which is approximately $600,000 above the level which would have been necessary for the two boards being replaced. The additional $600,000 will permit the board to contract for legal defense services for indigent inmates and is

DEPARTMENT OF CORRECTIONS—Continued

based on estimated workload requirements. Determination of specific workload requirements must await accumulation of experience operating under this new legislation.

Because of the uncertainty relating to workload and specific position requirements, the department proposes that, except for the nine board members, staffing for this operation in the budget year be classified as "temporary help-staff services" to maximize flexibility to meet workload conditions during the transition to SB 42 and in establishing ongoing program procedures. The proposed funding level and staffing pattern appear reasonable, subject to periodic review by the control agencies during the transition period and in developing permanent staffing patterns for this function.

Narcotic Addict Evaluation Authority

This board, consisting of four part-time members, makes release decisions on narcotic addicts who have committed crimes but who are committed as nonfelons (rather than as felons) for treatment of their drug problem. This board is not directly affected by SB 42, and the budget contemplates continuation of the currently approved program level. However, SB 42 could have an indirect impact on this board and the nonfelon narcotic addict program of the Department of Corrections if nonfelon addicts determine that acceptance of a shorter determined prison sentence as a felon would be more advantageous than commitment to the nonfelon addict program which generally can entail a period of institutional and community treatment for up to seven years.

IV. COMMUNITY CORRECTIONAL PROGRAM

The community correctional program includes conventional and specialized parole supervision, operation of community correctional centers, outpatient psychiatric services, anti-narcotic testing and community resource development. The program goal is to provide community supervision, support and services to parolees to assist them in achieving successful parole adjustment.

Overbudgeting of Parole Services

Expenditures for this program will total $27,492,475 in the budget year. This amount is composed of two parts: (1) $24,741,353 (General Fund and reimbursements) to fund regular parole services, and (2) $2,751,122 for a new community correction redirection program. Despite the 40 percent decrease in the number of parolees expected in the budget year, this total level of funding is essentially a continuation of the expenditure level approved by the Legislature for the current year. Table 2 shows that the original 1976–77 expenditure level was based on an average daily parole population of 14,755. The revised estimate for the current year shows a workload decrease of over 2,000 parolees, a 14 percent decline. The average daily population is expected to decline to 8,935 in 1977–78, a workload decline of 5,820 parolees, or a 40 percent reduction from the budgeted level for the current year.

The continuation of current year funding in the budget year, despite the substantial decline in parole population, is attributable to a provision in SB 42 which declared it was not the intent of that measure to diminish resources allocated for parole services.

The department states that the reason for the decline in parole caseload in the current year is the parole boards are already being influenced by the provisions of SB 42, even though that law does not become operative until July 1, 1977.

Under SB 42, parole periods are significantly shorter than those applicable under existing law, and this accounts for the further substantial decline in caseload in the budget year.

Table 2

Felon Parole Population

Fiscal year	*First of year*	*End of year*	*Average Daily Population*
1976–77 (Budgeted)	15,295	14,275	14,755
1976–77 (Revised)	13,497	12,015	12,675
1977–78 (Proposed)	12,015	6,040	8,935

Based on the previously approved workload standards, the budget for parole services in 1977–78 should be $23,625,963, a reduction of $3,886,512 below the amount requested. The department proposes to utilize this approximately $3.8 million in two expenditure categories, i.e., $1,115,390 for a staff attrition program to enrich parole services by delaying staff reductions to the greatest extent possible and permitting staff reductions to occur through normal attrition. The department advises it will present this program enrichment proposal to this office for review prior to legislative hearings on this budget item. The remaining $2,751,122 in potential budgetary savings (set forth as Program VII in the Governor's Budget) is proposed for a parole redirection program which is not defined in the Governor's Budget.

Parole Staff Attrition Program

We recommend the deletion of 84 temporary help (professional) and 12 temporary help (clerical) positions for a reduction of $1,115,390.

A total of 260.8 professional and clerical positions could be deleted from the parole program in the budget year based on the presently projected parole caseload, but the Governor's Budget proposes to retain the equipvalent of 96 of these positions in a temporary help "blanket" at a salary cost of $878,343. The addition of $237,047 in operating expenses related to these positions results in a total request of $1,115,390 for the staff attrition program. The remaining 164.8 positions have been deleted from the total authorized positions but $2,751,122 in salary and operating costs related thereto is proposed for expenditure under the parole redirection program.

The $1,115,390 proposed for the attrition program in the budget year is the department's estimate of its requirement to avoid layoff and to reduce staff gradually through the normal rate of attrition. The 96 positions (many part-year only) are therefore the total estimated layoffs that would be necessary if our recommendations on attrition and program redirection are approved.

DEPARTMENT OF CORRECTIONS—Continued

Pending review of the as yet undisclosed program changes, we are recommending deletion of this request to maintain the historically approved staffing patterns and program levels.

Program Redirection

We recommend deletion of the Community Correctional Program Redirection function for a reduction of $2,751,122 (Item 276).

The $2,751,122 requested for redirection of community correctional programs (parole services) is to provide undefined increased parole services which were not sufficiently determined for inclusion in the Governor's Budget. Details on this proposal are to be presented to our office for review prior to the budget hearings.

As the community correctional program portion of the budget contains sufficient funds to provide the currently authorized program, we are recommending deletion of this request for program enrichment, pending receipt and review of the new program proposal.

V. ADMINISTRATION

The administration program, including centralized administration at the departmental level headed by the director, provides program coordination and support services to the institutional and parole operations. Each institution is headed by a warden or superintendent and its own administrative staff. Institutional operations are divided into custody and treatment functions, each headed by a deputy warden or deputy superintendent. The parole operation is administratively headed by a chief parole agent assisted by centralized headquarters staff. The state is divided into 5 parole regions, each directed by a parole administrator, and the parole function is subdivided into districts and parole units.

Data Processing Positions

The support requirements for administration (not prorated to other programs) are estimated at 302.1 personnel-years and $10,315,506, which includes General Fund support of $9,935,108 (up 19.9 percent or $1,710,018 from the current year) and reimbursements of $380,398. The General Fund increase represents merit salary adjustments, price increases and 49.5 proposed new positions at a salary cost of $689,562 plus related operating costs for General Fund assumption of the partial operational costs and continuing developmental costs of the Corrections Decision Information System (CDIS). CDIS entails conversion to electronic data processes of the manual recordkeeping, statistical and program evaluation functions of the department. Continuation of this function requires the 49.5 positions for administration, plus 23 other positions at a salary cost of $230,784 proposed in the institution and community correctional programs. It is contemplated that these 72.5 new positions for CDIS will be required for a two-year period at which time 57.5 of the positions will be deleted. The remaining 15 positions will be retained and combined with the 40 positions currently authorized for the manual data system to operate the new computerized system.

Other New Positions

The department is requesting an additional 18.5 positions at a salary cost of $263,581 for administration. A total of 13.5 of these positions at a salary cost of $195,685 were deleted from the budget by Section 20, Budget Act of 1976, because of vacancies arising from recruitment and personnel management problems. The department advises that these problems are being resolved and that the positions should be restored as previously authorized on a workload basis.

The remaining five positions at a salary cost of $67,902 consist of one position to be substituted for contractual services previously funded as operating expenses and four positions supported by federal grants. These positions are justified for administrative workload.

VI. SPECIAL ITEMS OF EXPENSE

Items 270–273 provide reimbursements to the counties for expenses relating to transportation of prisoners and parole violators to state prisons, returning fugitives from justice from outside the state, court costs and all other charges relating to trials of inmates for crimes committed in prison and local detention costs of state parolees held on state orders. These reimbursements are made by the State Controller on the basis of claims filed by the counties. These special items of expense are distributed as follows:

Function	*Actual 1975–76*	*Estimated 1976–77*	*Proposed 1977–78*	*Change from Prior Year* Amount	Percent
Transportation of Prisoners (Item 270)	$189,354	$200,000	$220,000	$20,000	10.0%
Returning Fugitives from Justice (Item 271)	699,960	700,000	770,000	70,000	10.0
Court Costs and County Charges (Item 272)	1,698,899	1,803,934	1,178,934	−625,000	−34.7
County Charges for Detention of Parolees (Item 273)	538,533	560,000	616,000	56,000	10.0
Totals	$3,126,746	$3,263,934	$2,784,934	$−479,000	−14.7%

The $479,000 or 14.7 percent reduction in this program under current-year expenditures results primarily from a $625,000 or 34.7 percent reduction in the court costs and county charges function. The reduction reflects a transfer of funds from this budget item to the budget of the State Public Defender for support of new positions in that office to provide legal defense services for state prisoners when local public defenders refuse to handle the cases because of a conflict of interest or other legal cause. These positions are more fully discussed in the analysis of the State Public Defender's budget request.

Underbudgeting of Court Costs and County Charges

We recommend that Item 272 be augmented by $500,000 to reflect the increased needs for costs of inmate trials.

This item was reduced (as discussed previously) for the budget year by $625,000 below current-year estimated expenditures to offset a like increase in the State Public Defender's office. Based on our review of legal defense costs for inmate trials, it appears that an excessive amount of money has been transferred to the Public Defender's budget resulting in a corresponding funding deficiency in this item.

The State Public Defender is primarily responsible for providing legal defense services for criminal indigents in the state and federal appellate courts. Under the provisions of Chapter 1239, Statutes of 1976, he also represents indigent state prison inmates charged with new offenses in the trial courts, but only when the local public defender, who has the primary responsibility to defend such inmates, refuses to do so because of conflict of interest or other cause.

This budget item traditionally has provided funds to reimburse *all* local costs for inmate trials (including costs incurred by the district attorney, the sheriff, the court, etc.). Prior to Chapter 1239, when the local public defender was unable to handle a case involving a state prison inmate, the judge would appoint a private attorney and the costs were reimbursed from this item. Information furnished by the Department of Corrections shows that over an approximate three and one-half year period (July 1, 1973 through November 1976) reimbursements to counties for services of local public defenders (exclusive of court appointments from the private bar) averaged 4.5 percent of total reimbursements for court costs and related county charges. Based on this information, the $1,803,934 budgeted in the current year for reimbursement of local inmate trial costs would include approximately $81,177 for local public defender services.

A recent review of court-appointed attorney costs subject to reimbursement from this budget item in three counties having approximately one-third of the cases involved, found that the average reimbursement over a two and three-quarter year period was approximately three times the amount reimbursed to local public defenders. On this basis, three times $81,177 or $243,531 of the estimated current-year expenditure would represent court-appointed attorney costs.

Thus, *total* legal defense reimbursements for local public defenders and private attorneys would average approximately $324,708 per annum ($243,531, plus $81,177). Only a portion of the total defense cost would relate to cases refused by the local public defender for conflict of interest or other reasons which would now be handled by the State Public Defender under Chapter 1269. Such costs should not exceed $125,000. Because reimbursement claims filed by the counties must be paid and the amount transferred to the State Public Defender exceeds total defense costs, there will not be sufficient funds in this item to pay all potential claims. Therefore, we recommend that this item be increased by $500,000. We are recommending a corresponding reduction in the State Public Defender's budget, leaving $125,000 in a temporary help category in that budget to provide required services relating to conflict cases.

Health and Welfare Agency

DEPARTMENT OF THE YOUTH AUTHORITY

Items 274–281 from the General Fund — Budget p. 717

Requested 1977–78	$127,278,946
Estimated 1976–77	121,372,838
Actual 1975–76	109,864,502
Requested increase $5,906,108 (4.9 percent)	
Total recommended reduction	$5,070,400

1977–78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
274	Department Support	General	$100,431,266
275	Transportation of persons committed	General	43,540
276	Maintenance and operation of county juvenile homes and camps	General	3,825,840
277	Construction of county juvenile homes and camps	General	400,000
278	County delinquency prevention commissions—administrative expenses	General	33,300
279	County delinquency prevention commissions—research and training grants	General	200,000
280	Assistance to county special probation supervision programs	General	19,687,000
281	Legislative Mandate (Chapter 1071, Statutes of 1976)	General	2,658,000
			$127,278,946

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Funding Level. Withhold recommendation pending May revision of the population estimate.	659
2. *Population Decline. Reduce Item 274 by $306,200.* Recommend deletion of funding for surplus staff.	660
3. *Dental Services. Reduce Item 274 by $55,000.* Recommend deletion of two dental positions at DeWitt Nelson Training Center.	660
4. Staff Realignment. Recommend identification of positions transferred to new parole branch.	661
5. *Parole Placement Specialists. Reduce Item 274 by $253,000.* Recommend deletion of eight placement specialists and related clerical staffing.	661
6. *Parole Overhead. Reduce Item 274 by $240,000.* Recommend deletion of excess supervisoral staffing in parole.	662
7. *Parole Zone Headquarters. Reduce Item 274 by $43,200.* Recommend deletion of two positions assigned to zones with smaller caseloads.	663

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

8. Training. Withhold recommendation pending development of comprehensive training plan. 663
9. *Branch Headquarters. Reduce Item 274 by $215,000.* Recommend elimination of intermediate headquarters. 663
10. Capacity Alterations. Recommend department not make modifications which reduce capacity without legislative review. 664
11. Reception Center Processing. Recommend department review the feasibility of reducing time for reception center processing. 665
12. Public Works Employment Act of 1976. Recommend clarification of planned expenditure level for "operation maintenance catch-up." 665
13. *Probation Subsidy. Reduce Item 280 by $1,300,000.* Recommend elimination of over-budgeting. 665
14. *Juvenile Justice Legislation. Reduce Item 281 by $2,658,000.* Recommend deletion of item and separate legislation to permit legislative review of local cost reimbursement policy. 666

GENERAL PROGRAM STATEMENT

The responsibility of the Youth Authority Board and the Department of the Youth Authority, as stated in the Welfare and Institutions Code, is ". . . to protect society more effectively by substituting for retributive punishment, methods of training and treatment directed toward the correction and rehabilitation of young persons found guilty of public offenses." The board and the department have attempted to carry out this mandate through the program areas discussed below.

Youth Authority Board

The Youth Authority Board, consisting of eight members, is charged with personally interviewing, evaluating and recommending a treatment program for each offender committed to the department. It also sets terms of incarceration and is the paroling authority for all such wards.

Administration

The administration program consists of (1) the department director and immediate staff, who provide overall leadership, policy determination and program management; and (2) a support services element, which provides staff services for fiscal management, management analysis, data processing, personnel, training, and facility construction, maintenance and safety.

Community Services

The community services program provides direct staff services to local public and private agencies and administers state grants to subsidize certain local programs relating to delinquency and rehabilitation. Program elements are as follows.

Services to Public and Private Agencies

As required by law, this element establishes minimum standards of operation and makes compliance inspections of special probation services which receive state subsidies and county-operated juvenile halls, ranches, camps and homes and, in some cases, jails in which juveniles are incarcerated. It also assists in the improvement of local juvenile enforcement, rehabilitation, and delinquency prevention programs by providing training and consultation services to local agencies.

Financial Assistance

This element administers state subsidies to local government for construction, maintenance and operation of ranches, camps, and homes for delinquents, special probation programs, and delinquency prevention programs. State support, which is intended to encourge the development of these local programs, is based on the belief that local treatment of delinquents is more desirable, if not more effective, than incarceration in state facilities. Treatment in the community or in locally operated institutions retains the ward in his normal home and community environment or at least closer to such influences than may be the case with incarceration in state facilities.

Delinquency Prevention Assistance

This element disseminates information on delinquency and its possible causes; encourages support of citizens, local governments, and private agencies in implementing and maintaining delinquency prevention and rehabilitation programs; and conducts studies of local probation departments.

Rehabilitation Services

The rehabilitation services program, which is administered by a deputy director and supporting staff in Sacramento, is geographically divided on a north-south regional basis. Each region is directed by an administrator who is responsible for all institutional and parole functions within his region. The rehabilitation program encompasses a community parole program, and an institutional program consisting of four reception centers, eight institutions and five forestry camps as shown below.

Facility	*Location*
Reception Centers:	
Northern Reception Center/Clinic	Sacramento
Southern Reception Center/Clinic	Norwalk
Youth Training School Clinic [a]	Chino
Ventura Reception Center/Clinic [a]	Camarillo
Institutions:	
Northern California Youth Center	Stockton
O. H. Close School	
Karl Holton School	
DeWitt Nelson Youth Training Center	
Preston School of Industry	Ione
Fred C. Nelles School	Whittier
El Paso de Robles School	Paso Robles
Southern California Youth Center	Chino
Youth Training School	
Ventura School	Camarillo

[a] Colocated with institution.

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

Camps:

Ben Lomond Youth Conservation Camp	Santa Cruz
Pine Grove Youth Conservation Camp	Pine Grove
Mt. Bullion Youth Conservation Camp	Mariposa
Washington Ridge Youth Conservtion Camp	Nevada City
Oak Glen Youth Conservation Camp	Yucaipa

These facilities with an estimated average daily population of 4,569 wards, plus a community parole caseload program involving 7,274 wards, constitute a projected total daily average population of 11,843 wards under departmental supervision in fiscal year 1977–78 (Table 1). As discussed later in this analysis, the department estimates it will handle a daily average of 92 fewer institutional wards and 24 fewer parolees in 1977–78 than in the current year.

The wards generally come from broken homes, below average economic status and substandard residential areas. They are usually academically retarded, lack educational motivation, have poor work and study habits, and have few employable skills. Sixty-three percent have reading comprehension levels three or more years below their age-grade expectancy and 85 percent are similarly deficient in math achievement levels. Many also have psychological disorders or anti-social behavior patterns.

Table 1
Average Daily Population of Youth Authority Wards

	1975–76	*1976–77*	*1977–78*
Reception centers	697	696	696
Facilities for males	3,776	3,770	3,678
Facilities for females	149	195	195
Subtotal (Institutions)	4,622	4,661	4,569
Change from prior year	-	+39	−92
Parole caseload	7,653	7,298	7,274
Change from prior year	-	−355	−24
Total Wards	12,275	11,959	11,843

Diagnosis

All wards received by the Department of the Youth Authority undergo a diagnosis procedure at one of four departmental reception centers, which includes interviews, psychological and educational testing, and medical and dental examinations. Based on this information, staff develops recommendations to assist the Youth Authority Board in determining institutional assignments and treatment programs for the individual wards.

Care and Control

Residential care in camps and institutions provides housing, feeding, clothing, medical and dental services, while parole supervision in the community provides required surveillance and control to assist in rehabilitating the ward and protecting the community.

Treatment

Treatment includes counseling, religious services, recreation, psychiatric services, academic and vocational training in the institutions and post-release treatment in the community. These services are designed to meet the needs of the wards committed as an aid to their rehabilitation.

Research

The research program provides the evaluation and feedback to management necessary to determine those programs which are effective and should be continued, those that show promise and should be reinforced and those that should be discontinued. It also provides estimates of future institutional and parole caseloads for budgeting and capital outlay purposes, and collects information on the principal decision points in the movement of wards through the department's rehabilitation program from the time of initial referral to final discharge.

ANALYSIS AND RECOMMENDATIONS

The departmental programs, as proposed in the Governor's Budget, represent a net General Fund cost of $127,278,946 and 4,146.1 personnel-years of effort. Additionally, the department anticipates budget-year reimbursements amounting to $10,046,401 and federal grants totaling $1,039,496 for a total expenditure program of $138,364,843.

Table 2 summarizes the budget request, showing sources of funding by category, expenditure levels by program area, and proposed dollar and position changes.

Table 2
Budget Summary

	Estimated 1976–77	*Proposed 1977–78*	*Change Amount*	*Change Percent*
Funding				
General Fund	$121,372,838	$127,278,946	$5,906,108	4.9%
Reimbursements	10,103,469	10,046,401	−57,068	−0.6
Federal funds	990,253	1,039,496	49,243	5.0
Totals	$132,466,560	$138,364,843	$5,898,283	4.4%
Programs				
Youth Authority Board	$1,478,870	$1,492,423	$13,553	0.9%
Personnel-years	40.9	40.9	-	-
Administration	$5,463,151	$5,290,169	$−172,982	−3.2
Personnel-years	205.1	192.4	−12.7	−6.2
Community Services	$26,168,130	$27,927,829	$1,759,699	−6.7
Personnel-years	65.5	62.5	−3.0	−4.6
Rehabilitation Services	$95,897,664	$99,219,360	$3,321,696	−3.5
Personnel-years	3,799.6	3,787.2	−12.4	−0.3
Research	$2,129,745	$1,777,062	$−352,683	−16.6
Personnel-years	82.7	63.1	−19.6	−23.7
Legislative Mandates [a]	$1,329,000	$2,658,000	$1,329,000	100.0
Totals	$132,466,560	$138,364,843	$5,898,283	4.4%
Personnel-years	4,193.8	4,146.1	−47.7	−1.1

[a] Chapter 1071, Statutes of 1976 (AB 3121) relating to the juvenile justice system.

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

Additional Institutional-Based Conservation Camps

The budget reflects the closing of the DeWitt Nelson Forestry Training Program (two units) and the opening of two institutional-based conservation camps, one at DeWitt Nelson and one at the Ventura School. Forestry training will be conducted at each camp by forestry staff assigned at the camp rather than in a centralized facility.

Institutional-based camps (the department currently operates one at the El Paso de Robles School) permit a greater number of wards to participate in conservation programs, including fire prevention and suppression, than could participate in the regular, less secure, camp setting. The program at the Ventura School, which is co-educational, will permit female wards to participate in the conservation program. The budget reflects a net increase of $48,085 for additional staffing for these two camp programs.

Participation in the National School Lunch Program

The budget indicates that the department has applied to the State Department of Education to participate in the National School Lunch program on the basis that PL 94-105 expanded the definition of qualifying schools to include "juvenile detention centers." It is anticipated that participation in this program will result in a net General Fund savings of $1,014,717 in the budget year. Gross savings of $1,354,499 will be partially offset by additional costs of $167,750 to provide food equivalent to the federal participation requirements to older wards who are not eligible for the program, and $172,032 for 11 personnel-years and related operating expenses to manage the program. The department has, for several years, participated in the National School Milk program.

Institutional Population Down

The budget reflects the closing of five living units, equivalent to 250 wards, in the current and budget years. Staff assigned to these units are proposed to be deleted through attrition. This is discussed later in this analysis.

Other Program Changes

Additional Security Staff. The budget contains 3.2 positions and $56,223 to provide one additional security person 16 hours per day at the DeWitt Nelson Training Center, one of three schools located at the Northern California Youth Center (NCYC) in Stockton. These positions are required because (1) a large number of wards leave DeWitt Nelson daily for work and training within the NCYC complex, and (2) older wards with more violent and serious records are currently incarcerated at DeWitt Nelson.

Psychiatric Services for Wards on Parole. The department requests $100,000 to provide psychiatric services to the estimated 15 percent of parolees who have a history of psychiatric problems. Most of the time, such cases are referred to community mental health programs. However, because of the time lapse and difficulty often involved in getting some wards into local programs, $100,000 is proposed to provide direct psychiatric services to wards during the time between institutional release and the link-up with local services and programs.

Substance Abuse Services. For the past five years, most of the substance abuse programs of the department have been funded by the Office of Criminal Justice Planning. Such funding will terminate in the budget year and $250,000 from the State Office of Narcotics and Drug Abuse is proposed to continue this program at a reduced level.

Offender-Based Institutional Tracking System (OBITS). The budget proposes $157,841 to continue use of OBITS, the department's basic ward information system which was developed with federal funding. All but $22,139 of the request is to provide remote terminals to the department, its parole zone headquarters and institutions, and to reimburse the Teale Data Center for services. The $22,139 is for one position to maintain and update the system. Fourteen federally funded positions associated with development of OBITS will terminate by June 30, 1977.

Increased Security for Visiting. The department requests $117,311 to provide for increased security during visiting periods. This increase will provide staff to (1) operate the recently installed metal detectors and (2) monitor an increased number of visitors and observers at board hearings. The primary purpose of the increased monitoring is to prevent visitors from passing contraband to wards and to reduce the possibility of incidents during visiting periods.

Performance Monitoring and Evaluation System. The budget contains $72,212 for implementation of a department-wide, management-by-objectives system. This increase will provide 3.5 personnel-years of effort to train staff and implement pilot projects.

Special Repairs and Maintenance. The department requests $300,000 to provide special repairs and maintenance for projects which cannot be funded from Title II of the Public Works Employment Act of 1976.

Legislative Mandates. Item 281 provides $2,658,000 to reimburse local government for the costs imposed by Chapter 1071, Statutes of 1976 (AB 3121). This item is discussed later in this analysis.

Public Works Employment Act of 1976. The budget reflects a federally funded project entitled, "Operation Maintenance Catch-up" in the amount of $2,948,931 to renovate existing facilities. These funds will be used primarily to hire semi-skilled workers. Associated operating expenses will be funded from the department's support budget. This item is discussed later in this analysis.

Institutional Population Overbudgeted.

We withhold recommendation on the Department of the Youth Authority support budget pending the May revision of the population estimate.

As mentioned earlier, the budget reflects the closing of five living units (250 beds) in the current year because of lower-than-budgeted institutional population. This reduction is continued in the budget year. As of December 31, 1976, institutional population is 463 wards below the revised current year average budgeted level (after the 250-bed adjustment). The Governor's Budget proposes that positions deleted through the closure of the five living units be phased out through attrition in order to avoid layoff procedures.

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

We believe that the projected institutional population reduction is overly conservative. Unless ward population increases considerably between now and the May revision, institutional population capacity can be reduced by at least an additional 300 beds. If the population remains at or near its current level, the department should consider closing and disposing of El Paso des Robles School rather than closing individual living units scattered throughout the system. This would result in considerably greater savings because institutional support services (i.e., medical, management staff, etc.) could be deleted.

Population Decline Warrants Staff Layoff

We recommend deletion of funding for surplus staff for a savings of $306,200 (Item 274).

As mentioned under the previous recommendation, the department proposes to close five living units and delete the affected staff through attrition rather than layoff. The excess staff (approximately 20 positions in the budget year) would be used as backup while other employees participate in training activities or take vacation, sick leave or compensatory time off. On the basis of sound administrative and budgetary policy, we believe that these positions should be deleted as soon as the units are closed. The social problems caused by layoff requirements should not be resolved through adjustments in the budgets of line agencies.

Thus, we recommend that funds included in the department's budget for attrition be deleted for a savings of $306,200. Some of these savings will be offset by the costs associated with civil service layoff procedures. An adjustment to the projected savings can be considered when the May revision of the population estimate is reviewed.

Dental Services Overbudgeted at DeWitt Nelson Training Center

We recommend deletion of the dentist and dental assistant positions added last year at the DeWitt Nelson Training Center for a savings of $55,000 (Item 274).

Last year the administration proposed, and the Legislature approved, the addition of a dentist and a dental assistant at the DeWitt Nelson Training Center in order to provide a higher level of dental care to wards undergoing pre-camp forestry training.

This year the Governor's Budget points out on page 720 that "The DeWitt Nelson Training Center provides dental work for all wards transferred to the several Youth Conservation Camps. The pre-camp training program is conducted at this center and the dental work is completed while the wards are being trained." Yet on page 721, the budget states, "The institution-based camps will be established from the *closure of the DeWitt Nelson Forestry Training Program* . . . " (Italics added).

Therefore, we recommend deletion of these two positions because the program for which they were authorized has been deleted from the budget. This would result in a General Fund savings of $55,000. Wards assigned to the regular conservation camps will receive dental work before transfer to the camp program, and regular institutional dental care will be available to wards assigned to the institutional-based camps.

Planned Staff Realignment Not in Budget

We recommend that the department identify how positions currently budgeted to the Parole and Institutions Branch will be reallocated when that branch is divided.

Although not reflected in the Governor's Budget, we understand that the department plans to divide the existing Parole and Institutions Branch into two functional units. Traditionally, the institutions and parole management functions have been distinct and separate. In 1970–71, these functions were combined at the departmental level in order to enhance the ability of the department to provide wards with a "continuity of treatment".

We believe the existing organizational structure has not significantly contributed to this goal and has resulted in less than the desired level of management attention to the parole program. Thus, we support in concept the department's desire to separate the management of these programs. However, the department should identify how the positions currently assigned to the Parole and Institutions Branch will be allocated. No staff augmentation should be required as a part of this reorganization.

Parole Placement Specialists Not Cost Effective

We recommend that eight parole placement specialist plus related clerical support be deleted for a savings of $253,000 (Item 274).

During last year's budget hearings, the Department of Finance proposed and the Legislature approved the addition of eight parole agents to function specifically as placement specialists. These agents, who are assigned to the four parole zone headquarters (two each), attempt to speed up referral of difficult-to-place wards to parole. The objective in establishing this program was to reduce from 30 days to 20 days the time lapse, between the granting of parole by the Youth Authority Board and the actual release of the ward from the institution. By eliminating 10 days per ward, it was estimated that the need to open an additional 120 institutional beds could be avoided.

The department has almost achieved its goal of reducing placement time by 10 days, but this has been done primarily by changing procedures rather than through the efforts of the placement specialists. Prior to July 1976, field parole agents to whom the wards would be assigned took no official action to develop placement plans until the board actually granted parole. However, under current procedures, action is generally begun on hard-to-place cases 60 days before the board parole hearing, and quite often the parole plan is available to the board at the hearing. In such cases, the ward can be released from the institution almost immediately after parole is granted.

While the concept of having parole agents who specialize in finding placements for wards who are not returning to their parents' or relatives' homes appears useful, it is difficult to implement in the field. A parole agent assigned to the zone headquarters (he/she may be physically located elsewhere) lacks the day-to-day contact with community resources which field parole agents have. Because the development of placements

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

represents a significant part of the field parole agents ongoing workload, they should have a significantly better knowledge of all the resources available for difficult-to-place wards in their territory, than a placement specialist representing, on the average, a geographical area equal to one-eighth of the state. Because it appears that the only significant goal of the placement specialists is being achieved under the revised operating procedures, we recommend that these positions, plus related clerical staffing, be deleted for a General Fund savings of $253,000.

Eliminate Excess Overhead from Parole Units

We recommend that excessive overhead in parole be eliminated through the deletion of assistant supervisors in the smaller units for a savings of $240,000 (Item 274).

Approved departmental staffing formulas were developed, beginning in 1971, in the Improved Parole Effectiveness Program (IPEP). This program resulted in the adoption of a 50:1 ward/parole agent ratio and the development of an "average" parole unit consisting of eight case-carrying parole agents (400 cases in total), an assistant supervisor, a unit supervisor and related clerical staffing. During the current year, a parole agent was added to each unit to handle parole violation investigations.

Since 1966–67, the total parole caseload has been declining steadily as shown in Table 3.

Table 3

Youth Authority Parole Caseload

Year	Average Caseload	Change from Previous Year: Number	Change from Previous Year: Percent
1966–67	14,820	—	—
1967–68	14,246	−574	−3.9%
1968–69	13,933	−313	−2.2
1969–70	13,766	−167	−1.2
1970–71	13,373	−393	−2.8
1971–72	12,821	−552	−4.1
1972–73	11,870	−951	−7.4
1973–74	9,546	−2,324	−19.6
1974–75	8,327	−1,219	−12.8
1975–76	7,653	−674	−8.1
1976–77 (estimated)	7,298	−355	−4.6
1977–78 (estimated)	7,274	−24	−0.3

Although the department has consistently adjusted the number of regular case-carrying agents to reflect caseload reductions, it has not taken action to maintain parole units at the "average" size and thereby reduce overhead costs. As of December 31, 1976, there was only one parole unit with 400 or more assigned cases. One parole unit had only 205 assigned cases.

While geographical considerations preclude requiring all units to be consolidated to the "average" size of 400 cases, some excess overhead costs can be eliminated by deleting assistant supervisors in smaller units. This action would eliminate 12 positions and provide a budget-year savings of

$240,000. Implementation of this recommendation would not reduce the number of parole agents providing direct services to parolees. There would remain one supervisorial position for five case-carrying agents (plus the violations specialist and clerical staff) in the smaller parole units and two supervisorial positions in the units with six or more case-carrying agents, the violations specialist and clerical staffing.

Relate Staffing to Workload in Parole Zone Headquarters

We recommend the deletion of one parole agent position in each of two parole zones with smaller caseloads for a savings of $43,200 (Item 274).

On a statewide basis, parole units are organized into and managed by a total of four parole zones. Each zone headquarters is currently staffed with six professionals, i.e., a zone administrator, an administrative assistant, a planner, a training officer and two placement specialists (discussed earlier in this analysis) and related clerical support.

Parole caseloads in the zones as of December 31, 1976 were:

Zone 1 (Bay Area and North Coast)	*Zone 2 (Northern California)*	*Zone 3 (Los Angeles County)*	*Zone 4 Southern California)*
1,771	1,222	2,427	2,031

As shown above, caseload varies significantly between zones, ranging from 1,222 in Zone 2 to 2,427 in Zone 3. However, the professional staffing complement in each zone headquarters is the same. Because many of the duties performed by zone headquarters personnel are dependent on, or directly related to, caseload (such as business services, training and case work auditing), we believe a total of two parole agent positions can be eliminated (one each) in Zones 1 and 2. The remaining staff members will be able to provide services at a level equal to that currently provided in the two larger zones.

Develop Training Plan

We withhold recommendation on the department's training request of $1,073,361 until it develops a comprehensive plan for expenditure of these funds.

Despite its large training expenditure, the department has not developed a comprehensive plan for a training program, i.e., it has not assessed its overall needs and allocated training resources to meet them.

We believe the department should develop a comprehensive training plan which recognizes needs in the areas of (1) safety and security of the institutions, (2) treatment techniques, and (3) supervisory and management development. Until such a plan is developed, we cannot recommend approval of the funding request.

Delete North and South Branch Headquarters

We recommend elimination of the intermediate headquarters of the Parole and Institutions Branch for a savings of $215,000 (Item 274).

In 1962–63, when the Northern California Youth Center (NCYC) was being planned as an eventual 12-institution complex with a capacity of 4,800 wards, a center administrator and core staff were authorized. In

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

1967–68 planning began for the Southern California Center (SCYC), which also was projected to have a population of 4,800 wards. An administrator and secretary were authorized for this center, effective August 30, 1968. At that time it was anticipated that institutional populations would eventually exceed these capacities. Actual institutional population (department-wide) totaled 3,973 wards on December 31, 1976.

By 1970–71, only three of the projected twelve institutions had been constructed at NCYC and no additional institutions (the Youth Training School with a 1,200 ward capacity was in existence when SCYC was staffed) had been built at SCYC. At that time, the department desired to provide closer coordination between the parole and institutions programs. The Division of Rehabilitation was created in the department's headquarters by combining the institution and parole divisions, and the administrative superintendents of NCYC and SCYC were reclassified as Chiefs of Rehabilitation Services, north and south.

Over the years, the north and south branch staffs expanded to a total of 14 positions (seven each). This organization remained essentially the same until the current year when eight of these positions (four from each branch) were transferred to the central headquarters. Thus, each of the two branch headquarters now contains a CEA III, an administrative assistant and a secretary.

We believe these remaining six positions are not cost effective. They lack supporting professional staff and requisite authority to resolve problems and provide managerial assistance to institutional superintendents and parole unit administrators. Moreover, the department's desire to split the parole and institutions branch into two separate branches (discussed earlier) eliminates the primary reason for the creation of the North-South Branch organization. Accordingly, we recommend deletion of these positions for a savings of $215,000 in the budget year.

Budget for Capacity-Related Alterations

We recommend that the department not make permanent modifications to dormitory units which reduce capacity unless such projects are reviewed and approved by the Legislature.

During 1975–76 the department altered a 50-bed living unit at the Northern Reception Center/Clinic, located in Sacramento County, to a 35-bed unit in order to provide more "program" space, i.e., a multi-purpose room, a library and office space.

It should be noted that population levels can fluctuate significantly (as recently as one year ago the department was concerned that population might exceed institution capacity by the end of 1977–78), new construction is expensive and the reduction in living unit capacity significantly increases per capita costs. (The increased cost was approximately $3,000 per ward per year in the case cited above.) Therefore, we recommend that the department undertake no projects which reduce living unit capacity without legislative approval through the capital outlay budget review process.

Reception Center Processing

We recommend that the department review the reception center program for the purpose of reducing the amount of ward free time by shortening the reception process and report to the Joint Legislative Budget Committee by November 1, 1977.

The department states that the typical ward is directly involved in the reception center placement process for slightly less than one hour per day, or 26 hours out of a 28-day stay at the reception centers. After allowing approximately 14 hours for eating, sleeping and other personal time requirements, the ward has approximately nine hours per day of free time. As discussed in the capital outlay section of this analysis, the department has requested $72,000 for working drawings for gymnasiums at the northern and southern Reception Centers/Clinics. The requested gymnasiums would reduce this free time by one hour per day, leaving eight hours of free time.

We believe the department should review its reception center program with a goal of eliminating a significant portion of the remaining free time by shortening the reception process. We recommend that the department report to the Joint Legislative Budget Committee by November 1, 1977 on the results of this review.

Public Works Employment Act of 1976

We recommend that the department identify the expenditure level planned for its federally funded "Operation Maintenance Catch-up" program and adjust its reimbursement schedule accordingly.

The Governor's Budget reflects a two-year $2,948,931 program entitled "Operation Maintenance Catch-up" which the Department of the Youth Authority reports will be funded from the Public Works Employment Act of 1976 (PWEA). We understand that the department has applied to the Employment Development Department (EDD), which administers the PWEA funds, for only $1,736,706. However, the PWEA display contained on page 653 of the Governor's Budget (within EDDs budget) does not reflect any Department of the Youth Authority expenditures from this funding source. The Departments of the Youth Authority and Finance should explain this apparent inconsistency and adjust the Department of the Youth Authority reimbursement schedule accordingly.

Probation Subsidy Program Overbudgeted

We recommend that the probation subsidy program (Item 280) be reduced by $1.3 million to reflect a more realistic expenditure level.

The probation subsidy program was established in 1965 to encourage greater use of probation by sharing with the counties savings resulting to the state from a reduction in commitments of juveniles and adults to state institutions. Participating counties must make "earnings" based on a prescribed formula set forth in the Welfare and Institutions Code. The county achieves earnings by reducing its combined level of adult and juvenile commitments below a base commitment rate previously established. For each reduction in its base commitment level, the county is reimbursed (up to a maximum of $4,000) its actual cost of providing an enriched probation program meeting minimum standards prescribed by the Youth Authority.

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

As shown in Table 4, this program has been consistently overbudgeted for the last four fiscal years. Additionally, the number of counties participating in the program and county "earnings," which determine probation subsidy expenditures, have been declining over the past several years.

Table 4
Probation Subsidy Savings

	1973–74	*1974–75*	*1975–76*	*1976–77 (est.)*
Budgeted	$23,742,000	$24,100,665 [a]	$21,687,000	$19,687,000
Expended	20,410,354	22,248,284	20,759,555	18,317,616
Savings	$3,331,646	$1,852,381	$927,445 [b]	$1,369,384

[a] Includes $2,174,000 appropriated by Chapter 411, Statutes of 1974, primarily for treatment of offenders or alleged offenders by local law enforcement agencies.
[b] Includes $914,258 transferred to departmental support.

Despite these indicators and estimated current-year savings of $1,369,384, an appropriation equal to the current support level is requested in the Governor's Budget. Based upon estimated current year savings, we believe that $1.3 million can be deleted from the department's probation subsidy request.

Juvenile Justice Legislation [Chapter 1071, Statutes of 1976 (AB 3121)]

We recommend that Item 281 ($2,658,000) be deleted from the Budget Bill and that the issue of reimbursing local costs for the "juvenile justice" revisions imposed by AB 3121 be addressed through the regular legislative process.

Chapter 1071, Statutes of 1976 (AB 3121) made major changes in the way juveniles are processed by the criminal justice system at the local level. The act:

(1) Permits the detention of "status offenders" (run-aways, for example) only in shelter care facilities, crisis resolution homes or other nonsecure facilities.

(2) Requires each county probation department to establish a program of pre-adjudication home supervision and to place specified minors in the program. Probation officers or aides assigned to this program are limited to a caseload of no more than 10 minors.

(3) Revises existing procedures regarding juvenile court fitness hearings for minors, 16 years of age or older at the time of the alleged commission of an offense, who are charged with specified felonies (murder, certain arsons, robberies, rapes, kidnapings, assaults and discharges of firearms). The juvenile court is required to find such minors unfit for juvenile court proceedings unless it determines, based upon specified criteria, that the minor would be amenable to juvenile court care, treatment and training.

(4) Requires the prosecuting attorney, rather than the probation officer, to initiate action in juvenile court (i.e., file the petition) in cases involving minors accused of law violations.

(5) Modifies existing law under which the probation officer is permitted to place a minor in an informal supervision program for up to

six months in lieu of filing a petition to initiate juvenile court action, or subsequent to dismissal of a petition already filed.

(6) Requires the court to declare an offense committed by a minor to be a felony or misdemeanor if the same offense, if committed by an adult is punishable as a felony or misdemeanor. The act specifies that the minor cannot be held in physical confinement for a period exceeding the maximum term which could be imposed on an adult for a similar offense.

During legislative hearings on AB 3121 the cost aspects, as well as the substantive changes, were considered at length. As finally chaptered, the bill contained an "offsetting savings" SB 90 reimbursement disclaimer clause. Despite this provision, the Governor's Budget proposes a $2,658,000 appropriation to reimburse local governments for costs imposed by the act and further indicates that the administration will propose a deficiency bill in the amount of $1,329,000 to pay such costs in the current year. It should also be noted that the budget of the Office of Criminal Justice Planning indicates that approximately $2.8 million of federal Juvenile Justice and Delinquency Prevention funds will be distributed in 1976–77 and 1977–78 to the counties for the purpose of deinstitutionalizing "status offenders."

In our view, the proposal to reconsider a local mandate funding decision through the Budget Bill poses three serious problems. First, while it is clear that AB 3121 will significantly increase county costs, the act specifically disclaims responsibility for such costs. We believe it is inappropriate to, in effect, delete the SB 90 disclaimer through the Budget Bill when it was thoroughly debated during legislative hearings on the bill.

Second, the Department of Finance local mandate cost estimate upon which this budget proposal is based contains various assumptions which we find questionable. For example, it assumes that because the prosecuting attorney must file the petition and present it to the juvenile court, the probation officer will not have to be present during the adjudication phase of the juvenile court hearing. This assumption overlooks Section 581 of the Welfare and Institutions Code, which requires that the probation officer be present in all of these hearings unless his presence is waived by *all* parties to the proceeding (the judge or referee, the minor, *and* the probation officer himself).

Third, standards to evaluate cost increases under the bill do not exist, nor does the budget propose that any be established. Because of the complex nature of AB 3121, its widespread impact throughout the local justice system and the large amount of discretion granted to judges in implementing many of the changes it imposes, it will be extremely difficult and costly, at both the state and county level, to calculate accurately net mandated costs for each county.

Accordingly, we recommend that: (1) any decision to remove the SB 90 disclaimer be made through the regular legislative process by amending Chapter 1071, Statutes of 1976, (2) the Departments of the Youth Authority and Finance undertake a study to determine an appropriate statewide reimbursement level for local costs, and (3) that any funds appropriated to reimburse counties be distributed on a basis (such as per capita) that does not impose substantial state and local administrative costs.

Health and Welfare Agency

CALIFORNIA HEALTH FACILITIES COMMISSION

Item 282 from the California Health Facilities Commission Fund — Budget p. 735

Requested 1977–78	$855,871
Estimated 1976–77	1,096,922
Actual 1975–76	708,721
Requested decrease $241,051 (21.9 percent)	
Total recommended increase	$316,051

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Proposed Deletion and Transfer of Positions. Increase by $316,051.* Transfer $232,371 and seven positions from Item 243 and augment by $83,680 for four positions and do not recommend transfer of the functions of the California Health Facilities Commission to the Department of Health at this time. — 668

GENERAL PROGRAM STATEMENT

The California Health Facilities Commission was created by Chapter 1242, Statutes of 1971, and charged with the responsibility of developing a uniform system of accounting and reporting for all hospitals in California. Chapter 1171, Statutes of 1974, further required the commission to develop and implement an accounting and uniform reporting system for long-term care facilities in California, in addition to the hospitals. The purpose of developing these systems of reporting requirements was to: (1) encourage economy and efficiency in providing health care services, (2) enable public agencies to make informed decisions in purchasing and administering publicly financed health care, (3) encourage organizations which provide health care insurance to take into account financial information provided to the state in establishing reimbursement rates, (4) provide a uniform health data system for use by all state agencies, (5) provide accurate information to improve budgetary planning, (6) identify and disseminate information regarding areas of economy in the provision of health care consistent with quality of care, and (7) create a body of reliable information which will facilitate commission studies that relate to the implementation of cost effectiveness programs.

ANALYSIS AND RECOMMENDATIONS

We recommend a transfer of $232,371 and seven positions from Item 243, support for the Department of Health and the augmentation of $83,680 for four positions which are proposed to be deleted from the California Health Facilities Commission. We do not recommend the transfer of the functions of the California Health Facilities Commission to the Department of Health at this time.

The budget proposes an appropriation of $855,871 from the California Health Facilities Commission Fund for support of the commission during the 1977–78 fiscal year, a decrease of $241,051, or 21.9 percent, from the current fiscal year. This proposed reduction includes the deletion of four positions and operating expenses at a cost of $83,680 and the transfer of $232,371 for seven positions and related functions to the Department of Health on January 1, 1978. The budget states that the administration will introduce legislation to transfer all of the functions of the commission to the Department of Health. It is our understanding the transfer is planned to be completed by December 1978. The administration contends that the statutory mandate of the commission will be substantially accomplished by that time.

The Department of Finance recently issued a report which recommended that the California Health Facilities Commission be phased out and its functions be transferred to the Department of Health.

The main argument advanced by the Department of Finance is that the commission's only mandated function of establishing a uniform accounting system for health care facilities has been substantially accomplished. With the virtual completion of the accounting system for hospitals the only remaining task is the development of a similar system for long-term care facilities. However, the statutory authority relating to the powers and duties of the commission indicates that the commission may not have completed its mandated responsibilities. The law requires the commission to engage in the following:

> "The commission shall establish approved systems of health facility accounting, uniform reporting, and auditing to create, to the extent feasible, *one uniform, comprehensive state system which takes into account the data requirements of all state programs. . . . Administrative agencies shall use the comprehensive system provided for in this section to the maximum extent feasible.*" (Health and Safety Code Section 441.16(c))

Assuming that the commission has fulfilled its statutory purpose, there may be compelling reasons to delay the transfer of the commission's remaining duties to the Department of Health. One reason is ability of the Department of Health to administer additional responsibilities competently in the area of health facility data collection. The Department of Health's record in administering its present health facility duties is not an impressive one. Data is collected by the Office of Statewide Health Planning and Research Development, Licensing and Certification Division, Medi-Cal Division, and the Administration Division. The lack of coordination among these various sections has resulted in duplication of effort and data. Consequently, hospitals are subjected to numerous forms and questionnaires requiring information data. In some instances, the Licensing and Certification Division has sent the hospitals hastily prepared questionnaires which subsequently received little, if any, attention from the Department of Health. It may be noteworthy that the Health Facilities Commission is currently performing systems analysis work which will reduce some duplication within the Department of Health.

CALIFORNIA HEALTH FACILITIES COMMISSION—Continued

Prospective Rate Setting

Another comparison between the commission and the Department of Health can be made in the area of rate setting. The commission offered a report to the Legislature proposing an economic stabilization program and later submitted a rate setting proposal to the Social Security Administration. The Department of Health also sent a proposal to the Social Security Administration. The commission's proposal involved several years of activity and included the input of a nationally renowned expert in the field of rate setting, while the Department of Health proposal was developed in a haphazard manner over the course of several months.

The question of whether the Health Facilities Commission should be eliminated has very significant implications for major issues which the Legislature will be confronting in the next several years. The hospital inflation rate continues to increase in excess of other services. Many people believe that some form of rate setting will occur in the next few years.

Since both the Department of Health and the Health Facilities Commission submitted proposals to develop a rate setting system, the crucial issue is who will administer rate setting? The federal government has awarded the grant to the Department of Health but the project has not been initiated because the Joint Legislative Budget Committee expressed concern that full legislative review of the proposal be conducted prior to the commencement of work and the commitment of state funds.

Under normal conditions, we do not recommend either the establishment or retention of commissions for the administration of government functions. We normally recommend existing departments assume responsibility for administering functions rather than having a commission do it. However, we believe there should be a delay in the transfer of the commission's functions to the Department of Health until the Legislature has thoroughly considered such a move.