STATE WATER RESOURCES CONTROL BOARD—Continued

tions of water rights permits. Most of the funding consists of reimbursements ($83,292) from the Division of Water Resources (DWR) and the federal Bureau of Reclamation. (It appears that these reimbursements may not be funded in the budgets of the two agencies.) The remainder would be from the General Fund ($27,763).

Historically, the board has relied on holders of water rights who are being damaged by illegal water uses to protect themselves from illegal diversions or violations of permit terms. However, water rights are part of the owners' rights to property and must be defended by the owner or be lost through continued adverse use by other persons. The four positions requested would be used by the board primarily to protect the water rights of DWR and the bureau against other water users.

We recommend deletion of the proposed positions, the reimbursements and the increase from the General Fund. First, the board would be primarily enforcing the water rights of state and federal water agencies. If it is to enforce any water rights, it should be protecting equally the rights of all water users. Second, the board has received several additional positions for water rights enforcement work in the last two Budget Acts. These positions have been diverted to other work, partly because of the drought. If the board is to do any enforcement work, it should use these positions and clearly demonstrate the accomplishments of this effort before additional staff is approved. Third, recommendations from the Governor's Commission on Water Rights Law may change the legal framework under which the water rights program operates and substantially change the board's staffing needs for this work in the future.

Health and Welfare Agency

CONSOLIDATED DATA CENTER

Item 234 from various funds Budget p. 527

Requested 1978–79	$6,456,975
Estimated 1977–78	2,570,988
Total recommended reduction	Pending

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
234	Reimbursements	Various	$5,456,975
234	Data Center Implementation	General	1,000,000
			$6,456,975

CONSOLIDATED DATA CENTER—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Center Funding. Withhold recommendation pending refinement of costs and review of actual progress.	440

GENERAL PROGRAM STATEMENT

The Health and Welfare Agency Consolidated Data Center is one of four such centers authorized by Chapter 787, Statutes of 1972. It has been formed during the current year to provide coordinated computer support to the agency's constituent departments and offices.

ANALYSIS AND RECOMMENDATIONS

The proposed spending program for the center totals $2,570,988 for the current year and $6,456,975 for the budget year. The difference is due to: (1) action by the center to assume management of all agency computer operations and related personnel, effective January 1, 1978, and (2) the addition of $1 million to provide for installation of new computing equipment and the conversion of departmental computer programs to this new equipment. With the exception of this $1 million in "seed" money, the proposed budget will be reimbursed by the users of the center's services.

Equipment Replacement

Implementation of this data center is intended to provide necessary computer support of agency programs in a timely and cost-effective manner. The current operation, which is to be replaced, is both fragmented and based on relatively old computing equipment of insufficient capacity and capability. As a result, a growing amount of agency data processing work is being performed at the Stephen P. Teale Consolidated Data Center, which also has capacity problems.

By establishing this new center and transferring all agency data processing operations to it, a first and necessary step has been taken. The second element will be the acquisition of new computing equipment through competitive procurement. The installation of the new equipment is tentatively scheduled for May 1, 1979.

Although the primary goal in establishing this center is to provide adequate resources to support agency programs, it is anticipated that implementation of this center will provide computer support in a more cost-effective manner than would result from continuation of the decentralized operation.

Determination of Actual Budget Requirement

We withhold recommendation on Item 234 pending a refinement of anticipated data center costs and a review of actual progress toward the acquisition of new computing equipment.

The budget request for this center is based on the departments' estimates of costs of computer operations which have been transferred to the new center. Until the center verifies the adequacy of this funding, actual budget requirements will not be known.

In addition, the schedule for equipment replacement is, for the size and type of procurement contemplated, extremely optimistic. From a budgeting perspective, this is important because of the center's schedule. If the project schedule slips beyond May 1, 1979 the need for $1 million in "seed" money will decrease accordingly.

The center's current schedule calls for the release of a request for proposal to prospective bidders on April 1, 1978. In consideration of this release date and the need to refine actual center funding requirements, we recommend deferring action on Item 234 until early April. At that time, a more accurate estimate of funding requirements should be available.

Health and Welfare Agency

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Items 235–236 from the General Fund — Budget p. 530

Requested 1978–79	$4,129,332
Item 235	$1,729,956
Available from previous legislation	2,399,376
Estimated 1977–78	N/A
Actual 1976–77	N/A
Requested increase—Not Applicable	
Total recommended reduction	$36,540

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
235	State Operations	General	$1,729,956
Chapter 693, Statutes of 1976	Family Physician Training Administration		42,317
Chapter 1162, Statutes of 1977	Family Physician Training		100,000
Total Available			$1,872,273
Balance Available in Subsequent Years			−75,441
Total Expenditures			$1,796,832
236	Local Assistance	General	-0-
Chapter 1162, Statutes of 1977			$2,332,500
Total Expenditures			$4,129,332

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Song-Brown Family Physician Training Program. Recommend Department of Health submit to fiscal committees, a plan for determining and evaluating program impact. 442

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

2. *New Position in Director's Office. Reduce Item 235 by $36,540.* Recommend deletion of executive assistant position. 444

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977, reorganized the Health and Welfare Agency, effective July 1, 1978. It abolishes the Departments of Health and Benefit Payments and creates various new departments and the Office of Statewide Health Planning and Development which will report directly to the Secretary of the Health and Welfare Agency.

The responsibilities of the Office of Statewide Health Planning and Development are (1) the administration of those duties which are prescribed under the federal Public Law 93-641 and have been delegated to the State Health Planning and Development Agency, (2) the implementation of the State Certificate of Need program, (3) the administration of various health manpower responsibilities, such as the Song-Brown Family Physician Training program, (4) the procurement of available federal and state financial assistance for the development of needed health facilities, and (5) monitoring compliance of health facilities with state building codes. These responsibilities are currently administered by the Department of Health.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of $4,129,332 from the General Fund for the support of programs administered by the new Office of State Health Planning and Development. Of that amount, $1,729,956 is in Item 235 and the remainder is available from previously enacted legislation. This proposed expenditure includes the transfer of 138.3 positions from various programs in the present Department of Health to the new office and the establishment of 5.5 new positions in the budget year.

Song-Brown Family Physician Training Program

We recommend that the Department of Health submit to the fiscal committees prior to budget hearings a plan for determining and evaluating the estimated program impact on the location of family practice physicians who have completed a residency program receiving Song-Brown funds, in geographic areas of unmet priority need.

Chapter 1176, Statutes of 1973, created the Family Physician Training program in California. This act appropriated $3,150,000 from the General Fund to establish a contract program with accredited medical schools and other health care delivery systems to increase the number of individuals receiving training in the specialty of family practice. Family practice residencies are three years in duration following graduation from medical school. Contracts can also be awarded to programs which train primary care physician's assistants. Chapter 1003, Statutes of 1975, made primary care nurse practitioner training programs eligible to receive contract funds, as well.

Table 1 shows the amounts which have been appropriated under the

Song-Brown legislation. The budget proposes that $2,332,500 be expended for residencies. These funds will be available for the budget and subsequent three fiscal years.

Table 1
General Fund Appropriations for the Song-Brown Family Physician Training Program 1973 through 1977

	Administration	*Contracts*	*Total*
Chapter 1176, Statutes of 1973	$150,000	$3,000,000	$3,150,000
Chapter 693, Statutes of 1976	100,000	1,675,000	1,775,000
Chapter 1162, Statutes of 1977	100,000	2,332,500	2,432,500
	350,000	$7,007,500	$7,357,500

The Health Manpower Policy Commission establishes the standards for all training programs and makes recommendations to the Director of the Department of Health on which programs should receive funds. The department provides $13,000 a year per resident to the school as support for a portion of the total residents in the school's program. Table 2 shows the amount of General Fund expenditures already allocated to this program and the number of Song-Brown funded residents.

Table 2
Number of Song-Brown Residents by Residency Year and Expenditures from General Fund

	First year	*Second year*	*Third year*	*Total*	*Cost*	*Percent increase in cost*
1975–76	14	17	4	35	$443,654	
1976–77	19	27	20	66	855,075	+93%
1977–78	28	24	27	79	1,027,000	+20%
1978–79	27	40	24	91	1,365,000	+33%

Although a specified number of residencies in a program are Song-Brown funded, there is no procedure for identifying individuals in the program as the designated Song-Brown funded residents. Instead, the entire program must adhere to the standards established by the Health Manpower Policy Commission. One such standard requires the development by the school or program of appropriate strategies to encourage residents to practice in areas of unmet priority need after completing the training program. This approach is consistent with the statutory language of the Song-Brown legislation which states:

"It is the intent of the Legislature to provide for a program designed primarily to increase the number of students and residents receiving quality education and training in the specialty of family practice . . . and to maximize the delivery of primary care family physician services to specific areas of California where there is a recognized unmet priority need." (Education Code Section 69270)

Some of the innovative methods developed by the commission and the department to comply with the law include requiring programs to select

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

residents who are otherwise predisposed to practice in areas of need, and also to have residents receive some training in the actual geographic areas of need. Table 3 shows the number of physicians in residency programs receiving Song-Brown funds who have elected to practice in areas of unmet priority need.

Table 3
Practice Locations of Physicians From Programs Receiving Song-Brown Funds

	Total number of completed residencies	*Number in areas of need*[a]	*Percent of total in areas of need*
1976	10	3	30%
1977	44	10	23
	54	13	24%

[a] Areas of need listed in Second Annual Report of Health Manpower Policy Commission, December 1975.

Designated areas of unmet priority need were not identified until November 1975, so the program which provided 10 completed residencies in June 1976, had only approximately seven months notice in which to promote the designated areas as locations for the practice of medicine by third-year residents. Similarly, the residents who completed their training in 1977 were already in their second year of residency when the need areas were defined.

Therefore, an accurate assessment of the effectiveness of the present method for implementing the law cannot be made until a full three-year cycle of a Song-Brown funded program has been completed.

However, in order to assess the effectiveness of the program at the completion of the three year cycle, the office needs to establish specific, measurable program goals, and to identify the percentage of new family physicians electing to practice in designated high-need areas.

Executive Assistant Position in Director's Office

We recommend deletion of the executive assistant position at a savings of $36,540 (Item 235).

The budget indicates that the position of Chief Deputy Director presently in the Department of Health is to be reclassified as Director for the budget year. A CEA I position will provide the administrative capacity in the director's office. The budget also proposes an additional administrative position—executive assistant—which would be exempt from civil service procedures. The department failed to provide information justifying the need for the position on the basis of increased workload. Therefore, we recommend deletion of the position for a savings of $36,540.

Office of Statewide Health Planning and Development

LEGISLATIVE MANDATES

Item 237 from the General Fund — Budget p. 530

Requested 1978–79	$120,960
Estimated 1977–78	N/A
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item proposes expenditures of $120,960 from the General Fund to reimburse local government agencies for the fees that must accompany Certificate of Need applications submitted to the Department of Health. Chapter 854, Statutes of 1976, requires a Certificate of Need from the Department of Health in order to proceed with construction of or addition to new health facilities, including county hospitals. Applications for a Certificate of Need must be accompanied by a fee. The budget request is for a reasonable amount and we recommend approval.

Health and Welfare Agency

DEPARTMENT OF AGING

Item 238 from the General Fund — Budget p. 537

Requested 1978–79	$1,658,073
Estimated 1977–78	1,580,512
Actual 1976–77	1,212,618
Requested increase $77,561 (4.9 percent)	
Total recommended reduction	$80,500

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
238	Support, Department of Aging	General	$1,358,073
Chapter 1199, Statutes of 1977	Senior Volunteer and Nutrition Model Project	General	300,000
Total			$1,658,073

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Reserve for Nutrition. Reduce by $91,000.* Recommend reducing over-budgeted amount reserved for nutrition. 448
2. *Special Planning Group. Augment by $10,500.* Recom- 453

DEPARTMENT OF AGING—Continued

mend establishment of special planning group to make legislative and administrative recommendations to develop an integrated system of health and social services for the elderly.

GENERAL PROGRAM STATEMENT

The California Department of Aging is designated by state statute (W and I Code, Division 8.5) 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. As the state unit on aging authorized by the act, the department is responsible for planning, coordinating and monitoring programs to stimulate 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 administered by the department: Field Operations, Program Support, Administration, Grants and Commission on Aging. The Commission on Aging is semi-independent of the department. It 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 $1,358,073. In addition, the department will receive funds appropriated for the Senior Volunteer and Nutrition Project under Chapter 1199, Statutes of 1977, totaling $300,000 from the General Fund, and $50,000 from the Transportation Planning and Research Account. The total budget proposal including federal funds is $54,050,712, an increase of $5,737,025, or 11.9 percent, over estimated current year expenditures. Approximately $3.4 million will be spent for the administration of the department and of the commission, $16.8 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 $26.5 million will be available for cash grants to fund nutrition projects throughout the state. Table 1 compares the estimated total expenditures for fiscal year 1977–78 with the proposed budget for 1978–79.

As Table 1 shows, the majority of funds allocated to the department are dispensed in grants to local public and private nonprofit agencies. The funding for the two major titles under the Older Americans Act of 1965, as amended, Titles III and VII, is continuing to increase while funding of Titles IV-A, V and IX is expected to remain constant for the current fiscal year and the budget year. Both Titles V and IX were initially funded by the federal government during the current year.

FIELD OPERATIONS

The Field Operations Division is responsible for the administration and coordination of the two major titles under the Older Americans Act, Title

Table 1
Department of Aging
Estimated Total Expenditures
1977–78 and 1978–79

	Estimated 1977–78	*Proposed 1978–79*	*Percent change*
Department of Aging administrative costs	$3,017,992	$3,163,431	4.8%
Commission on Aging administrative costs	208,206	226,870	9.0
Grants			
Title III—Coordinated services	14,741,316	16,789,483	13.9
Title IV-A—Service provider training	532,993	532,993	0
Title V—Multipurpose senior centers	4,258,055	4,258,055	0
Title VII—Nutrition projects	23,056,930	26,495,062	14.9
Title IX—Employment	2,045,318	2,045,318	0
Federal model projects	73,000	73,000	0
State grants	162,750	325,500	100.0
State nutrition grant	141,000	141,000	0
Long-range plan	76,127	—	—
Total	$48,313,687	$54,050,712	11.9%

III and Title VII. The primary role of Division staff is the assessment and monitoring of programs funded under the two titles.

During the past year, there has been a major change in the department's activities. The Field Operations Division has been moving away from providing technical assistance to grantees under the Titles III and VII programs toward assessing and monitoring the programs. We believe this change will contribute to an improvement in the overall provision of services through the grantee agencies. The budget requests three new positions for field operations, all of which would be financed by increased federal support. We believe these positions are justified.

Coordinated Services—Title III

Title III funds are allocated to California for the purpose of establishing a network of coordinated services and resources for the elderly (age 60 and over). Local jurisdictions have been established, and 17 Area Agencies on Aging (AAAs) have been designated to carry out the purposes of the title in California. In addition, the department provides grants to 47 direct service agencies (DSAs) located in areas of the state not covered by an AAA. Services provided through DSAs are primarily of a coordinating nature such as information and referral.

Each AAA must develop an area plan including demographic data about the elderly population, available services, service gaps, and identification of priority service needs. Attempts are made to pool and coordinate services within each jurisdiction and funds are provided to develop and support service projects which best meet the identified priority needs.

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 iden-

DEPARTMENT OF AGING—Continued

tification 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.

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.

37,000 Meals Per Day. During the latter part of calendar year 1977, there were about 81 nutrition projects funded statewide serving meals at approximately 552 congregate sites. About 37,000 meals were being served once a day, five days per week.

State Funds Reserved for Nutrition

We recommend that $141,000 proposed for local nutrition programs be reduced by $91,000.

Since 1972, the Legislature has appropriated funds to be used to augment local nutrition programs for the aging where local funds are insufficient to meet the required 10 percent match to qualify for federal funds. Each year substantially more money has been appropriated than has been spent. In no year has more than $50,000 been spent for this purpose. In 1976–77, the budget appropriated $141,000 for the state reserve for nutrition, and again less than $50,000 was needed to meet the needs.

The history of funding the state reserve for nutrition has demonstrated that the majority of local nutrition programs have no difficulty providing the local match required to qualify for federal nutrition funds. A few Indian nutrition projects have been assisted and will continue to need help. This identified local assistance need amounts to less than $50,000 annually. The additional $91,000 budgeted for nutrition does not represent any demonstrated need authorized in existing statutes. Therefore, we recommend that the state reserve for nutrition be reduced to $50,000.

Phase Out of Regional Offices

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 near grantees may facilitate the provision of technical assistance to grantees. This lessens travel costs and is more convenient for the consultants. Nevertheless, we believe there are several good reasons for centralizing field staff.

Unification of Procedures. A major problem confronting the department is inconsistent 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. Policy-making and implementation problems now experienced by the department could be significantly alleviated by the elimination of the regional offices.

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.

Better Utilization of Limited Staff. The centralization of staff would allow for more specializing by 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.

In the 1977–78 Analysis, we recommended a phase out of the regional offices in Fresno and Oakland. The Legislature asked the department to study the issue and report on the feasibility of the recommendation by December 1, 1977. The report indicated several advantages and some disadvantages to centralizing all operations but made no recommendation. In January, however, the director issued a staff memo stating the department's intention to phase out all regional offices and centralize all operations. We concur with the director's proposal. The department estimates initial costs could run between $100,000 and $150,000 to phase out all three offices. By phasing out the two smaller offices in the budget year and the Los Angeles office in fiscal year 1979–80, the department should be able to absorb the costs within the proposed budget appropriation.

PROGRAM SUPPORT

The Program Support Division is responsible for a rather broad range of planning, research and evaluation activities. Also included in this division are the public relations section, the legislative coordination activity, and a statewide library services effort. The Program Support Division also provides a broad range of technical assistance to public and private, non-profit agencies in areas affecting senior citizens, such as housing, transportation, health, employment, and income maintenance.

In addition to broad technical assistance and support efforts, the division is responsible for the two newly funded programs—Title V, which provides financial assistance to local agencies for acquiring, altering or renovating existing facilities to serve as multipurpose senior centers, and Title IX, which promotes part-time subsidized employment opportunities for senior citizens 55 years of age and older in a variety of community service activities. The budget requests six new positions for Title V and six new positions for Title IX. All of these positions are federally supported to carry out the provisions of the two titles.

Finally, the Program Support Division has the responsibility for implementing the state Senior Volunteer and Nutrition Model Project created by Chapter 1199, Statutes of 1977. The statute mandates pilot projects in Sacramento, San Diego and Humboldt Counties to provide senior citizens with one meal per day at minimum or no cost. Such projects are to offer the program participants an opportunity to volunteer their services for the betterment of the community. The statute requires the department to report to the Legislature and the Governor on or before July 1, 1980,

DEPARTMENT OF AGING—Continued

evaluating each of the pilot projects. The act appropriated $150,000 for fiscal year 1977–78 and $300,000 for fiscal year 1978–79 from the General Fund. In addition, $25,000 was appropriated for fiscal year 1977–78 and $50,000 for fiscal year 1978–79 from the Transportation and Research Account in the State Transportation Fund. Funds from the latter account are to be used to provide transportation for the program participants to and from the program site. The budget requests one new position to administer the nutrition and volunteer services program for senior citizens. We concur with this request.

ADMINISTRATION

The Administration Division coordinates and directs the operations of the department. Elements in the program include the director's office, fiscal and business management, personnel and training. In addition, this division is responsible for monitoring and assessing Title IV-A and federal model projects. Title IV-A funds training projects for service providers. There are two Federal Model Projects: (1) the Nursing Home Ombudsman program and (2) the Legal Services Development program.

The budget requests six additional positions for this division to provide two new staff persons in each of three projects: Title IV-A, Nursing Home Ombudsman and Legal Services Development program. We recommend approval of the positions on the basis of increased workload.

Management Practices

The Department of Aging was first created as an office in the Health and Welfare Agency by Chapter 1080, Statutes of 1973. The director of the office was given status equal to a department head and the office operated essentially as a department. Chapter 157, Statutes of 1976, changed the title from Office on Aging to Department of Aging.

The responsibilities of the department have related primarily to administering funds allocated to California through the federal Older Americans Act of 1965 as amended. Beginning with fiscal year 1973–74, funding for the programs, especially Title III and Title VII, has expanded rapidly. Table 2 illustrates the growth of federal/state funding from fiscal years 1972–73 through 1978–79.

Table 2

Growth of Programs for Aging [a]
Fiscal Years 1972–73 Through 1978–79

Fiscal year	*Federal Funding*				*State*
	Title III	*Title VII*	*Other* [b]	*Total*	*Funding*
1972–73	—	—	$2,757,463	$2,757,463	$98,473
1973–74	$4,783,000	$8,454,000	966,584	14,203,584	783,580
1974–75	6,798,200	8,900,220	2,381,726	18,080,146	1,218,420
1975–76	6,837,118	12,753,621	1,613,512	21,204,251	1,325,073
1976–77	9,213,545	16,736,582	2,105,505	28,055,632	1,288,758
1977–78	14,741,316	23,056,930	8,856,879	46,655,125	1,580,512
1978–79	16,789,483	26,495,062	9,000,123	52,284,668	1,658,073

[a] Except for fiscal year 1978–79, all figures are based on mid-year estimates presented by the department in the annual budget documents in order to more accurately reflect the growth pattern. The actual figures will vary due in part to the irregular funding cycles which have characterized the expanded funding and the delayed expenditure patterns among the grantee agencies.

[b] Administrative support, federal special projects and emerging titles of the OAA.

The rapid growth of funding for Titles III and VII has contributed to many administrative problems within the department. The department has been subject to numerous critical reviews over the past several years. In the 1977–78 Analysis, we recommended that several actions be taken by the department to improve its management practices. We requested that a report be submitted on or before December 1, 1977 to the fiscal committees of the Legislature and to the Joint Legislative Budget Committee. The report reveals that during the past year the department has improved its management practices.

Lack of Coordinated Services

Although internal operations and grants management of the Department of Aging have improved significantly during the past year, little progress has been made toward developing an integrated system of services to the elderly citizens of the state. The goal of the Older Americans Act of 1965, as amended, is to bring together all services to the elderly in each specified planning and service area in order to achieve a maximum impact on the total needs of the elderly within that area. Contrary to that purpose, the funding of services through the Older Americans Act has actually contributed to fragmentation of services and increased competition between service providers by funding a new line of service providers. Most of the pooling of resources accomplished through the Area Agencies on Aging has had only a cosmetic effect and has failed to achieve meaningful progress toward a coordinated service delivery system.

A number of recent reviews of services to aging offered under the Older Americans Act of 1965, as amended, form the basis for our conclusion that program coordination has not been achieved. The major reviews include 1977 interim legislative hearings, the *California Long-Range Plan on Aging*, a report from the Office of the Auditor General, and testimony given to the House Select Committee on Aging by the National Commissioner-Designate on Aging.

Interim Hearings. During the 1977 legislative interim, hearings were held by the Assembly Special Subcommittee on Aging and the Senate Health and Welfare Committee. In the course of these hearings, it became clear that the loose network of planning and coordinating agencies is not working. It was also made clear that letters of understanding entered into by various state agencies have no significant impact on the real integration of services to the elderly. Existing agencies have a variety of mandates to fulfill. Real coordination can only occur where clear lines of authority and responsibility are established and integrating policies and procedures are enforced by responsible parties.

Long-Range Plan. The Budget Act of 1976 appropriated $123,000 to the department for the purpose of establishing a long-range plan for providing services to the elderly in the State of California. A preliminary draft of that plan was completed in September 1977. The range of subjects it covers illustrates the breadth of the problems facing the department and the Area Agencies on Aging. The plan outlines a series of responsibilities

Table 3
HEALTH CARE AND SUPPORTIVE SERVICES FUNDED OR ADMINISTERED BY STATE AGENCIES AVAILABLE TO ELDERLY RECIPIENTS OF PUBLIC ASSISTANCE

Program	*Responsible Agency*	*Estimated Program Cost 1976–77*	*Funding Source*
Coordinated Social Services	Department of Aging	$10,711,665	Title III, Older Americans Act
Nutrition Services	Department of Aging	18,083,775	Title VII, Older Americans Act
Public Health Nursing Services to the Aged	Department of Health Public Health Division	1,521,800	State and County Funds
In-Home Supportive Services	Department of Health Social Services Division	112,800,000	Title XX (Social Services), Social Security Act and State Funds
Home Health Agency Services	Department of Health Medi-Cal Division	1,949,300	Title XIX (Medi-Cal), Social Security Act and State Funds
Adult Day Health Care	Department of Health Alternative Health Systems	338,400	Title XIX, Social Security Act and State Funds
Residential Care Homes	Department of Health Licensing and Certification Division	69,768,000	Title XVI (Supplemental Security Income—Supplemental Payment), Social Security Act and State Funds
Intermediate Care Facilities	Department of Health Licensing and Certification Division	22,384,400	Title XIX, Social Security Act and State Funds
Skilled Nursing Facilities	Department of Health Licensing and Certification Division	404,066,400	Title XVIII, Social Security Act Title XIX, Social Security Act and State Funds
Physicians' services, outpatient hospital and other necessary services (Part B Medicare)	Department of Health Medi-Cal Division	47,264,000	Title XIX, Social Security Act and State Funds

Source: Report of the Auditor General No. 275.3 entitled: Lack of a Planned, Integrated System of Services for the Elderly.

including income maintenance, health and social services, nutrition, transportation, housing, employment, legal matters, education, preretirement planning, and recreation and cultural activities. It is evident from a review of the broad range of services outlined in the plan that the responsibilities of the CDA and the AAAs are too large to be effectively coordinated unless the coordination is approached in a planned way within limited priority areas. The first priority should be given to the health and social services area because of the interrelationship of services, the multiple service providers and the various funding sources involved.

Auditor General Report. In December 1977, the Auditor General reported to the Joint Legislative Audit Committee regarding the lack of a planned, integrated system of services for the elderly. The report focused primarily on the need for a continuum of care for the elderly along a spectrum beginning with minimal in-home supportive services and continuing through levels of increasing care up to intensive acute hospital care. The report identified the diffused responsibility for delivering services to the elderly among a number of state agencies. It suggests that there are a number of elderly residing in nursing homes who would be more appropriately placed in residential care for the elderly. An assignment to a less intensive level of care would presumably reduce costs and result in more comfortable surroundings for the patients. Table 3 was prepared by the Auditor General to summarize the health care and supportive services which are funded or administered by state agencies and available to the elderly recipients of public assistance.

National Commissioner—Designate on Aging. In testimony presented before the House Select Committee on Aging on August 3, 1977, the President's designee as the new National Commissioner on Aging (not yet confirmed by the Senate) stated, "The Older Americans Act itself contributes to the problem of a fragmented system." He went on to advocate the simultaneous overhaul of both the Older Americans Act and the Social Security Act in order to "totally integrate the management and administration of services for the aging under the Older Americans Act and services for adults under the Social Security Act; . . . [the integrated system] should include both social services and a system of community living arrangements which would include skilled nursing and intermediate care homes. I want to emphasize particularly this last point because I believe that nursing homes should be managed as an integral part of a comprehensive system of community services for the aged and disabled adult and *not* an extension of the massive health care industry."

Special Planning Group

We recommend that a special planning group be established in the Department of Aging funded in part through the Public Works Employment Act and that Item 238 be augmented in the amount of $10,500. This item augmentation is to provide operating expenses and equipment costs for a special planning group created to make legislative and administra-

DEPARTMENT OF AGING—Continued

tive recommendations to develop an integrated system of health care and social services for the elderly.

We believe that the time is right for establishing an experienced planning group consisting of participants from several disciplines in the health care and social services systems. Among the many services directed toward the needs of the elderly, health and social services are the most fragmented. Several state agencies have responsibility for providing these services. There is a clear need for a major coordinating effort which should involve substantial modification of existing delivery systems. It may require some state departments to be reorganized, and statutory changes. It will require a clear delineation of agency roles so that there is delegated authority to implement an integrated system of service delivery.

Composition and Role

1. The planning group should be located in the Department of Aging because a) the latter has the statutory responsibility to coordinate services to the elderly and b) a major effort, the *California Long-Range Plan on Aging,* has already explored much of the material which will need to be studied in order to develop a unified system.

2. The planning group should have the following composition and funding:

No.	*Description*	*Funding source*
1	Planning Director	Public Works Employment Act
2	Department of Aging planning staff	Public Works Employment Act
4	Clerical staff	Public Works Employment Act
2	Department of Health Services planning staff	Department of Health Services support
2	Department of Social Services planning staff	Department of Social Services support
1	Office of Statewide Health Planning and Development planning staff	Office of Statewide Health Planning and Development support

We recommend that funding for the positions of the planning director, the two Department of Aging planning staff and the four clerical staff be funded through the Public Works Employment Act (an estimated cost of $138,000). The representatives of the Health, Social Services, and Health Planning Units should be funded by their parent agencies but report to the planning director for the duration of the planning effort. Each of the representatives should be experienced and have a thorough understanding of the respective delivery systems.

3. The planning group should concentrate on bringing into one coordinated system health and social services as discussed in Chapter 7 of the *California Long-Range Plan on Aging.* The report developed by the planning group should contain clearly defined and detailed recommendations for both legislative and administrative action which may be needed to assure that services to the elderly will be delivered in a cost-effective and integrated manner.

4. The planning group should submit its report to the Legislature and the Governor by December 1, 1978, in order to assure that there be timely action on the report during the 1979 legislative session.

We suggest that the California Interdepartmental Committee on Aging (CICA) serve as a governmental advisory body to the special planning group and that the California Commission on Aging serve as a consumer advisory body to the planning group.

5. The planning group would be in existence only until the plan is completed and presented to the Legislature and the Governor.

COMMISSION ON AGING

We recommend approval of the request for the California Commission on Aging. The Commission is mandated by state statute to (1) act as the principal advocate body for the elderly of the state and (2) advise the Governor, Legislature, Department of Aging and other state agencies on all problems relating to aging. Effective January 1, 1977, the size of the commission was increased from 15 to 25 members. At the same time the 36-member Statewide Advisory Council which had served as an advisory body to the commission was abolished. Nineteen of the 25 members are appointed by the Governor, 3 by the Speaker of the Assembly and 3 by the Senate Rules Committee.

The administrative budget for the Commission on Aging requested for fiscal year 1978–79 is $226,870, which is an increase of $18,664, or 9 percent, over the current fiscal year appropriation. The commission staff consists of an executive secretary, an administrative assistant, and three clerical positions. No new positions are requested.

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG ABUSE

Items 239–242 from the General Fund — Budget p. 541

Requested 1978–79	$57,420,524
Estimated 1977–78	51,803,415 [a]
Actual 1976–77	N/A
Requested increase $5,617,109 (10.8 percent)	
Total recommended reduction	$3,000,000

[a] Based on estimate for drug programs in the Department of Health and the Office of Alcoholism.

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
239	State Operations	General	$4,842,527
	Budget Act of 1976, Item 280(g) Research Centers	General	493,975
	Budget Act of 1976, Item 280.1 Public Inebriate Project	General	47,050
	Total Available		$5,383,552
240	Local Assistance for Alcoholism	General	31,775,696
	Budget Act of 1976, Item 280.1 Public Inebriate Project	General	993,119
	Total Available		$32,768,815

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

241	Local Assistance for Drug Abuse Programs	General	17,768,157
242	PCP Program	General	3,000,000
Total Available			$20,768,157
Balance Available in Subsequent Years			−1,500,000
Total			$19,268,157
Total Expenditures		General	$57,420,524

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. California Labor Management Plan. Recommend department submit a final plan and evaluation design to the fiscal subcommittees and appropriate policy committees. 458
2. Funds for State Hospital Services. Recommend department submit a revised cost estimate of the alcohol program at Camarillo State Hospital to the fiscal and appropriate policy committees. 459
3. Evaluation of Drug Abuse Programs. Recommend that department submit a revised time schedule for evaluation to the fiscal and appropriate policy committees. 460
4. Positions for Administration of Drug Abuse Contracts. Reduce Item 239 by $70,724 (federal funds). Recommend deletion of three new positions for fiscal management activities. 460
5. Marijuana Impact Legislation. Recommend department submit an updated report on the impact of Chapter 248, Statutes of 1975 (SB 95). 461
6. *PCP/Angel Dust Juvenile Counter Impact Program. Delete the $3,000,000 in Item 242.* Recommend deletion of proposed appropriation for prevention activities for juvenile use of PCP/Angel Dust. 462

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977 (SB 363) created the Department of Alcohol and Drug Abuse, effective July 1, 1978. The department combines the functions of the current Substance Abuse Division in the Department of Health and the Office of Alcoholism in the Health and Welfare Agency.

Chapter 1128, Statutes of 1975, created the current Office of Alcoholism, effective January 1, 1976. The office is reponsible 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. Each county receives an allocation from the General Fund and from federal alcoholism funds. This statute also requires that General Fund allocations be matched with county funds on a 90 percent state, 10 percent county basis.

The drug program was established in the Department of Health in 1973 to implement certain provisions of the Campbell-Moretti-Deukmejian Drug Abuse Treatment Act of 1972. In July 1977, the State Office of Narcotics and Drug Abuse was merged with the Division of Substance Abuse of the Department of Health. This was done to eliminate duplication of effort and provide a single organization to administer drug abuse programs. The drug abuse program assists counties in the planning, development, implementation, coordination, and funding of local drug prevention, treatment and rehabilitation programs. The program administers state funds through counties via the Short-Doyle system.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures from the General Fund of $57,420,524 for the 1978–79 fiscal year, which is $5,617,109 or 10.8 percent more than is estimated to be expended during the current year for administrative and program costs for both the alcoholism and drug abuse programs. Included in total General Fund expenditures are $4,842,527 in Item 239 for state operations in the new department, $31,775,696 in Item 240 for local assistance to alcoholism programs, $17,768,157 in Item 241 for local assistance to narcotics and drug abuse programs, and $1,500,000 to be expended in the budget year from a proposed appropriation of $3,000,000 in Item 242 for a PCP (phencyclidine)/Angel Dust Juvenile Counter Impact Program. The total state and federal support for the current and budget years is shown in Table 1.

Table 1
Alcoholism and Drug Abuse Programs
State and Federal Expenditures
1977–78 and 1978–79

	Estimated 1977–78	*Proposed 1978–79*	*Difference*	*Percent change*
Alcoholism State Operations				
General Fund	$2,196,757	$2,938,325	$+741,568	38.8%
Federal Funds	1,444,248	1,085,371	−358,877	−24.8
Total	$3,641,005	$4,023,696	$+382,691	10.5%
Local Assistance				
General Fund	$30,664,628	$32,768,815	$+2,104,187	6.9%
Federal Funds	4,451,111	5,175,557	+724,446	16.3
Total	$35,115,739	$37,944,372	$+2,828,633	8.1%
Total General Fund	$32,861,385	$35,707,140	$+2,845,755	8.7%
Total Federal Funds	5,895,359	6,260,928	+365,569	6.2
Total Alcoholism Expenditures	$38,756,744	$41,968,068	$+3,211,324	8.3%
Drug Abuse—State Operations				
General Fund	$2,179,617	$2,445,227	$+265,610	12.2%
Federal Funds	1,287,746	1,674,099	+386,353	30.0
Total	$3,467,363	$4,119,326	$+651,963	18.8%
Local Assistance				
General Fund	$16,762,413	$19,268,157	$+2,505,744	14.9%
Federal Funds	15,448,171	14,682,156	−766,015	−5.0
Total	$32,210,584	$33,950,313	$+1,739,729	5.4%
Total General Fund	$18,942,030	$21,713,384	$+2,771,354	14.6%
Total Federal Funds	16,735,917	16,356,255	−379,662	−2.3
Total Drug Abuse Expenditures	$35,677,947	$38,069,639	$+2,391,692	6.7%
Total Expenditures for Alcoholism and Drug Abuse Programs	$74,434,691	$80,037,707	$+5,603,016	7.5%

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

California Labor Management Plan

We recommend that the Department of Alcohol and Drug Abuse submit a final plan for the California Labor Management Project and an evaluation design which includes an estimate of project impact, a time schedule of evaluation activities and a description of evaluation methods to the Joint Legislative Budget Committee, the fiscal subcommittees and the appropriate policy committees by August 1, 1978.

In 1974 the Office of Alcoholism funded a California Labor Management Plan in which members of local labor unions received training techniques for establishing occupational alcoholism programs. During the three-year period ending in 1977 over 100 programs in local unions were created. The budget proposes the expenditure of $295,792 in the 1978–79 fiscal year as the first increment of a planned three-year program. The budget states that "After implementation, local unions will assume funding responsibility."

The department is proposing to contract for the administration of this program with the California Labor Management Plan—a nonprofit labor organization composed of representatives from the AFL-CIO, United Auto Workers, the International Longshoremen and Warehousemens Union, and the International Brotherhood of Teamsters. This organization will maintain a staff which will train a total of six training directors from the various participating unions. These training directors will receive intensive training and a full-time salary, part of which will be paid by his or her union, and will train a number of local coordinators who will establish programs in the union locals.

Although the Office of Alcoholism performed a limited review of the original Labor Management Plan in 1974, the method of review did not seek specifically to identify any measurable changes in the behavior of the individuals the programs were designed to serve. However, several studies conducted in the private sector, such as one by a large California corporation, conclude that the savings in reduced sick leave and job efficiency resulting from early detection and treatment referral is likely to offset the cost of operating similar occupational alcoholism programs.

The proposed program includes funds of $60,000 for evaluation. We believe the new department should more clearly define the objectives of the program and include in the evaluation design the following elements:

1. An identification of both the target group which will be the focus of the activities in the labor management plan, and the projected level of change in information, attitudes, or behavior in the target group.

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 submitted to the Legislature to assure that it is kept informed of the progress of the project.

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

Alcohol Prevention Project

During the 1976–77 fiscal year the Office of Alcoholism initiated an Alcohol Prevention Project with funds appropriated for this purpose. Table 2 indicates the General Fund expenditures by fiscal year for this project.

Table 2
General Fund Expenditures for the Alcohol Prevention Project 1976–77—1978–79

	Actual 1976–77	*Estimated 1977–78*	*Proposed 1978–79*
Alcohol Prevention Project	$793,982	$832,424	$882,369

Supplemental language of the Budget Act of 1977 required the Office of Alcoholism to submit an evaluation design for the Alcoholism Prevention Project to the Joint Legislative Budget Committee, the fiscal and appropriate policy committees. We reviewed the report and found that it did not provide adequate information on the evaluation design. The contractor performing the evaluation is considering our objections.

Funds for State Hospital Services

We recommend that the Department of Health submit a revised cost estimate of the alcohol program at Camarillo State Hospital in 1978–79, based on the proposed state hospital staff increases related to licensing, to the Joint Legislative Budget Committee, the fiscal subcommittees, and the appropriate policy committees by March 15, 1978.

The Governor's Budget identifies $962,004 as the proposed expenditure for state hospital services in 1978–79 for the alcoholism program at Camarillo State Hospital. The budget narrative indicates that in 1978–79, the Department of Alcohol and Drug Abuse will be phasing out the remaining alcohol program at Camarillo and working to establish additional community based programs. The $962,004 figure does not reflect any adjustment for the proposed staff increases related to licensing deficiencies in the current year and continuation of such proposed staff increases in the budget year. The Department of Finance advises us that funds and positions related to additional staffing for the state hospital alcohol program are contained in the budget item for funding of state hospitals serving the mentally disabled.

The additional community programs mentioned in the budget narrative will be supported from the funds saved as a result of phasing out the Camarillo alcohol program. In order for the Department of Alcohol and Drug Abuse and the affected counties to realistically plan alternative community programs, it is necessary that the proposed cost of the state hospital alcohol program in 1978–79 be identified as soon as possible. Therefore, we have suggested the need for a timely report on the proposed state hospital staff increases related to licensing.

New Positions for Data and Information Systems

We recommend approval.

The budget proposes the establishment of four new positions for the alcoholism program in the area of data systems and one position for fiscal management. Two associate programmer analysts will be utilized to further develop computer data programming to provide the alcoholism program with data required for management to make informed policy decisions. One research analyst is proposed to be added for review of the increased computer data. In a January 1977 report to the Legislature we expressed concern over the lack of information about program activities and believe the new positions are justified. Because of additional responsibilities in the Office of Alcoholism, we believe the proposed accounting technician position is also justified.

Evaluation of Drug Abuse Programs

We recommend that prior to budget hearings, the Department of Health submit to the Joint Legislative Budget Committee, the fiscal subcommittees, and the appropriate policy committees a revised time schedule for program effectiveness evaluation and a description of staff activities to assure compliance with the schedule.

The Campbell-Moretti-Deukmejian Drug Abuse Act of 1972 required the Department of Health to "develop an objective program evaluation device or methodology and evaluate state-supported narcotics and drug abuse prevention and treatment programs." The Drug Abuse Program Evaluation project was initiated in response to this. Initially, the five positions involved in the project were located in several different units in the department. At present, they are located in the Drug Abuse Evaluation Unit in the Substance Abuse Division.

The Drug Abuse Program Evaluation Project has been planned in three phases. Phase I, completed in December 1974, focused on various evaluation alternatives which might be applicable in drug abuse treatment. Developing and testing specific evaluation methods was scheduled for Phase II. Evaluation of education and prevention programs was to be performed in Phase III.

The first step of Phase II was to develop and test a process evaluation system for management efficiency in drug programs (January 1975–December 1975). During 1975 a system was pilot tested in 17 drug abuse programs. Based on the pilot results a plan was developed for process evaluation during 1976 for 113 of the 207 programs in the state. The department states that it will make available the results of this evaluation by spring 1978.

The second step of Phase II was the short-term outcome evaluation (January 1976–December 1976). Developing and testing this evaluation system was to focus on measurable changes in the behavior of drug program participants from entry to discharge from a program. However, the pilot test of 20 programs did not begin until April 1977, so that it is not yet completed.

Positions for Administration of National Institute on Drug Abuse Contracts

We recommend deletion of three positions for fiscal management activities at a savings of $70,724 in federal funds.

The budget proposes to establish two associate governmental program analyst positions and one account clerk II position with federal drug abuse funds. According to the information provided by the Department of Health, these positions will be primarily for assisting local drug abuse programs in the development of adequate fiscal procedures. However, on January 1, 1978, the drug abuse audit staff of 10 positions was nearly doubled by the addition of eight new positions. These auditors will be performing functions similar to those proposed for the three federally-funded positions. We believe the expanded drug abuse audit staff can take on the additional responsibilities without a further increase.

Marijuana Impact Legislation

We recommend the Departments of Alcohol and Drug Abuse and Justice submit an updated report on the impact of Chapter 248, Statutes of 1975, (SB 95), to the Joint Legislative Budget Committee, the fiscal subcommittees, and the appropriate policy committees by August 1, 1978.

In our 1977–78 Analysis we reported that a study prepared by the Departments of Health and Justice on the impact of revised penalties and recordkeeping requirements for possession of marijuana was not received in time for us to review it in the Analysis as required by the Supplemental Language of the Committee on Conference. The timing also precluded our issuing a supplemental analysis in time for budget hearings. This study, "A First Report of the Impact of California's new marijuana law (SB 95)" compared only the first six months of the state's experience under the new marijuana legislation in 1976 with the comparable six months period in 1975. Because of these limitations, it is difficult to draw substantive conclusions on the impact of these changes upon the criminal justice and drug rehabilitation systems.

However, the data appear to suggest that changes in penalties for the possession of small amounts of marijuana (one ounce or less) have not been a significant factor in the use of marijuana by California adults. In addition, data presented in the report appear to indicate that there have been some nonfiscal "savings" to various components of the criminal justice system which has been able to redirect efforts away from marijuana-related activities to other pressing problems. Although it also appears from the data that enrollments in diversion programs may have been reduced, any resulting program savings appear to have been offset by increased diversion of hard drug offenders. We believe that continued analysis is appropriate in light of the significant change in policy direction represented by provisions of Chapter 248 that reduce marijuana penalties and call for the destruction of prior criminal records. We, therefore, recommend a followup study of the impact of the 1975 marijuana law.

The report should consider the following factors:

1. Monetary savings should be clearly differentiated from a redirection of program effort.
2. Record destruction provisions of Chapter 248 should be analyzed in light of their impact upon all state agencies. The number of records destroyed should be identified.
3. The role of marijuana in "driving under the influence of drug" arrests should be addressed and results of the Office of Traffic Safety grant to the Department of Justice analyzed.
4. Judicial workload and cost impacts should be coordinated with the California Judicial Council.

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

5. Cost data for diversion programs should be extensive and not based solely on Los Angeles, San Diego, and Orange counties.
6. More precise estimates should be separately provided for the cost of treating each marijuana and "hard drug" divertee.

PCP/Angel Dust Juvenile Counter Impact Program

We recommend deletion of $3 million in Item 242 for intervention and prevention activities aimed at juvenile use of PCP or Angel Dust.

The budget proposes expenditures of $3 million for prevention and intervention activities aimed at juvenile use of PCP. The proposed appropriation would be available for both 1978–79 and 1979–80, with $1,500,000 expended in each fiscal year. It is also proposed that the funds will be expended by grant or contract through the request for proposals or invitation for bid process, and no funds will be used for administration.

The budget states that the recently formed Advisory Council on Narcotics and Drug Abuse has identified PCP (phencyclidine) use among juveniles and adolescents as "the state's current most pressing drug abuse problem in terms of growth". The Department of Health has provided us with information on the growing incidence of PCP. However, we have not received any definitive information on the proposed PCP project, except the statement that such a project must develop detailed data to identify more clearly the extent of usage and the traits of the users. In the absence of any meaningful information on the proposed project, we cannot recommend the proposed expenditure of $3 million.

Zero-Base Budgeting

The budget for the alcoholism program was prepared using zero-base budgeting (ZBB) principles as part of a pilot program required by Chapter 260, Statutes of 1977. The Office of Alcoholism divided its activities into 26 decision packages. Decision packages were prepared at each of the five required funding levels 50%, 75%, 100%, 125%, 150%. Also, a proposed level was developed at approximately 2 percent above the 100 percent level.

At the time of the agency's second budget hearing with the Department of Finance, some disagreement arose regarding the priority ranking of the decision packages. It should be noted that the Governor's Budget for the alcoholism portion of the 1978–79 fiscal year displays the department's budget in the standard program format.

A special report evaluating the ZBB pilot project will be issued by our office at the time of the budget hearings.

Health and Welfare Agency
GOVERNOR'S ADVISORY COMMITTEE ON CHILD CARE

Item 243 from the General Fund	Budget p. 547
Requested 1978–79	$74,471
Estimated 1977–78	70,723
Actual 1976–77	None
Requested increase $3,748 (5.3 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes a General Fund appropriation of $74,471 for the cost of the Governor's Advisory Committee on Child Care. This committee is authorized by Section 8254 of the Education Code to provide policy recommendations to the Governor and the Superintendent of Public Instruction on issues relating to child care and child development.

The appropriation of $74,471 is an increase of $3,748 or 5.3 percent over estimated expenditures for the current year. This increase reflects a cost-of-living adjustment for support of one executive secretary and one clerical position as well as travel and operating expenses for the committee.

Department of Health Services

DEPARTMENTAL SUPPORT

Items 244–246 from the General Fund — Budget p. 571

Requested 1978–79	$58,947,582
Estimated 1977–78	N/A
Total recommended reduction	$1,338,749

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
244	Departmental Support	General	$52,339,427
245	Licensing and Certification	General	5,650,353
246	Fiscal Intermediary Project	General	458,375
	Amount available from previously enacted legislation	General	499,427
	Total		$58,947,582

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Reorganization of Public Health Division. Recommend rural health component not be granted division status, but instead be made a branch of the Public Health Division. 467
2. Consolidation Proposal. Recommend against merger of Maternal and Child Health branch and the Child Health and Disability Prevention branch. 468
3. Location of Audits and Collection branch. Recommend Audits and Collection Branch be located in the Medi-Cal Division, not the Administration Division. 468
4. Location of Investigations Section. Recommend Investigations section remain with the Medi-Cal Division and not be placed in the Licensing and Certification Division. 469
5. Local Public Health Assistance. Recommend transfer of the Local Public Assistance section to the Public Health Division central office. 469

DEPARTMENTAL SUPPORT—Continued

6. Sanitary Engineering. Withhold recommendation on six sanitarian positions pending determination of appropriate organization placement of the Sanitary Engineering section. 470
7. Occupational Health. Withhold recommendation on six administrative positions pending receipt of additional workload information. 470
8. Occupational Carcinogen Control Unit. Recommend department report on reasons for low productivity of inspections in the unit and steps taken to correct problem. 471
9. Obstetrical Pilot Project. Recommend project not be approved unless augmented by research position. 471
10. *Child Health and Disability Prevention. Reduce Item 244 by $45,946.* Recommendation discussed in analysis of Item 252 by deletion of $45,946 made in Item 244 for 5 temporary positions in the Child Health Information and Claiming unit due to insufficient workload. 472
11. *Contract Counties Program. Reduce Item 244 by $287,-997.* Recommend deletion of General Fund support for 10 sanitarian positions. 473
12. *Contract Counties—Child Health. Reduce Item 244 by $35,242.* Recommend deletion General Fund support for three positions. 474
13. Fiscal Intermediary Transfer. Withhold recommendation pending receipt of material detailing staff needed for the transition to a new Medi-Cal fiscal intermediary. 476
14. Audit Appeals. Withhold recommendation on 18 positions for Medi-Cal Audit Appeals Bureau. 478
15. *Medi-Cal—Recoveries Bureau. Reduce Item 244 by $46,-240.* Recommend General Fund deletion of 4.7 positions requested for Medi-Cal Recovery Compliance section. 479
16. *Unauthorized Borrowed Positions. Reduce Item 244 by $923,324. Recommend elimination of approximately 40 borrowed positions for "Strike Force II" and the Management Support section of the Medi-Cal Division* 479
17. Guidelines for Borrowed Positions. Recommend department submit guidelines governing use of borrowed positions by April 1, 1978. 480
18. Budget Office Role. Recommend budget office play larger role in reviewing new positions and in obtaining workload, productivity and cost/benefit data for budgetary changes. 480

GENERAL PROGRAM STATEMENT

On July 1, 1978, the new Department of Health Services will become operational. The new department will include elements of the current Department of Health and the Department of Benefit Payments. According to the Governor's Budget, the new department will be organized into six major divisions: the Director's Office, the Medi-Cal Division, the Public Health Division, the Rural Health Division, the Licensing and Certification Division, and the Administration Division.

The Department of Health Services' major responsibility will be providing access to health care for California's welfare, medically needy and medically indigent populations through the Medi-Cal program. The department will exercise licensing responsibilities over hospitals, clinics, nursing homes and other health care facilities. The department's public health responsibilities are numerous and include programs to control infectious disease, conduct cancer research, improve emergency medical services, protect the public from unsafe foods and drugs, safeguard water quality, evaluate sewage treatment and disposal facilities, protect the public from radiation exposure, reduce the incidence of occupational illness, reduce the incidence of maternal, infant and childhood morbidity and diseases by delivery of preventative health services, and improve the quality of health services in rural areas.

ANALYSIS AND RECOMMENDATION

The Governor's Budget proposes a 1978–79 operating budget of $115,743,397 (all funds) for the Department of Health Services. Of this amount, $62,765,501 is proposed for salaries, $15,700,329 for staff benefits (25 percent of salaries and wages) and $37,277,567 for operating expenses and equipment. Table 1 identifies the sources of operating funds for the department.

Table 1
Source of Funds
Department of Health Services Operating Budget

A. General Fund	
Item 244—Basic Operations	$52,339,427
Item 245—Licensing and Certification	5,650,353
Item 246—Fiscal Intermediate Projects	458,375
Previous Legislation	499,427
General Fund Subtotal	$58,947,582
B. Reimbursements from Other Departments:	11,976,261
C. Federal Funds	43,597,440
D. Hazardous Waste Control Account	919,468
E. Item 247—State Transportation Fund	302,466
Total	$115,743,217

Under the Governor's 1978–79 Budget, the Department of Health Services would have 3152.3 positions transferred from the Department of Health, 320.5 positions transferred from the Department of Benefit Payments, and 399.8 new positions. Seventy existing positions are proposed for deletion due to workload adjustments. Table 2 shows the placement of existing positions and proposed new positions by division within the department.

DEPARTMENTAL SUPPORT—Continued

Table 2
Department of Health Services
Placement of Positions by Division

Divisions	*Existing Transferred Positions*	*Proposed New Positions*
Director's Office	55.6	19.4
Medi-Cal	727.1	107.5
Public Health	1141.5	147.9
Rural Health	98.7	19.0
Licensing, Certification and Investigations	395.8	13.5
Administration	1054.1	92.5
	3472.8	399.8
Workload Adjustments	−70.2	
Total	3402.6	

The Department of Health Services' budget has two major components: local assistance and department operations. Support of departmental operations ($58,947,582 General Fund) accounts for 3.3 percent of total General Fund support and is provided in three budget items and several special appropriations. The Public Health Division accounts for the largest proportion of departmental support. Funds for local assistance ($1,735,947,670 General Fund), which are used to reimburse health providers, including public and private agencies, are included in seven separate budget items and special appropriations. Local assistance funding for the Medi-Cal program dwarfs all other functions with 91.4 percent of the General Fund support. In total, the General Fund support for both local assistance and departmental operations is $1,794,895,252.

Table 3 shows the level of General Fund expenditure for the Department of Health Services by division and program. It also lists the sources of funding.

Table 3
Proposed Fiscal Year 1978–79 General Fund Expenditures and Revenue Sources
Department of Health Services
(By Division and Program)

	General Fund Expenditures		
Division and Programs	*Local Assistance*	*Department Support*	*Program Totals*
Public Health Division	($71,160,412)	($29,693,680)	($100,854,092)
I. Preventive Medical Services	8,195,094	9,219,944	18,135,038
II. Environmental Health	-	11,939,892	11,939,892
III. Occupational Health	-	(2,907,574)	(2,907,574)
IV. Maternal and Child Health	62,245,318	5,636,270	67,881,588
Rural Health Division	(4,461,984)	(3,149,050)	(7,611,034)
V. Rural Health	4,461,984	3,149,050	7,611,034
Medical Assistance Division	(1,586,112,772)	(17,826,235)	(1,603,939,007)
VI. Medical Assistance	1,586,112,772	17,826,235	1,603,939,007
Licensing Division	-	(6,933,971)	(6,933,971)
VII. Licensing, Certification Investigations	-	6,933,971	6,933,971
Administration Division [a]	-	N/A [a]	N/A [a]
VIII. Undistributed Overhead	-	4,242,220	4,242,220
VIIIa. Distributed Overhead	-	N/A [a]	N/A [a]
Other	(74,212,502)	-	(74,212,502)
IX. Legislative Mandates	169,488	-	169,488

X. Provider Rate Increase	74,043,014	–	74,043,014
XI. Special Projects	–	–	–
Totals	$1,735,947,670	$58,947,582	$1,794,895,252
Sources of Funding			
1. Item 244, Department of Health Services Support	–	$52,339,427	$53,339,427
2. Item 245, Licensing and Certification Support	–	5,650,353	5,650,353
3. Item 246, Implementation—Fiscal Intermediary Contract	–	458,375	458,375
4. Item 248, Payments for Service, Health Care Deposit Fund	$1,449,319,000	–	$1,449,319,000
5. Item 249, Fiscal Intermediary, Health Care Deposit Fund	26,411,400	–	26,411,400
6. Item 250, County Administration, Health Care Deposit Fund	110,270,400	–	110,270,400
7. Item 251, Rate Increases	74,043,014	–	74,043,014
8. Item 252, Local Assistance to Local Health Agencies	43,584,386	–	43,584,386
9. Item 253, Local Assistance for Crippled Children's Services	27,231,704	–	27,231,704
10. Item 254, Legislative Mandates	169,488	–	169,488
11. Other Appropriations, Special Funds	4,918,278	499,427	1,046,409
Total, Department of Health Services	$1,735,947,670	$58,947,582	$1,794,895,252

[a] These figures were not available from the Department of Health.

REORGANIZATION ISSUES

After review of the proposed organizational structure of the new Department of Health Services we recommend the following:

1. *That the existing public health division not be divided.*
2. *That the merger of the Maternal and Child Health branch and the Child Health and Disability Prevention branch not be made.*
3. *That the Audits and Collection branch (transferred from the Department of Benefit Payments) be located in the Medi-Cal Division, not in the Administration Division.*
4. *That the Investigations section be located in the Medi-Cal Division, not in the Licensing and Certification Division.*

Rural Health

The administration proposes to divide the Public Health Division of the present Department of Health into two divisions, the Public Health Division and the Rural Health Division. The smaller of the two—the Rural Health division—would be created out of the Rural Health, Indian Health, and Contract County Sections of the current Preventive Medical Services Branch. With less than 100 positions, it would be smaller than any branch of the proposed Division of Public Health. We believe the elevation of three sections to division status is unwarranted, and would make the new department more difficult to manage. Added emphasis for rural health services could be achieved through elevation of the three sections to branch status within the Public Health division.

DEPARTMENTAL SUPPORT—Continued

Merger of Maternal and Child Health and the Child Health and Disability Prevention Program

The decision to consolidate the Maternal and Child Health (MCH) and Child Health and Disability Prevention Program (CHDP) branches is based on the desire to lessen the duplication of effort and fragmentation of services which can occur when independent state programs interreact with the same local agencies. We believe that consolidation of these branches ultimately should be accomplished. Nevertheless, we believe such a consolidation is premature given the management problems within the Maternal and Child Health program. A recent study by the Department of Health's Office of Planning and Program Analysis found that the Maternal and Child Health Branch: (1) has an inadequately developed organization relative to its responsibilities, (2) suffers from overly centralized information and decisionmaking, (3) has inadequate procedures and delineation of responsibilities needed to carry out important functions, (4) has assigned staff responsibilities to persons outside of the unit intended to manage the function (5) has lacked procedures for identifying and resolving problems, and (6) has issued inadequate provider agreements and contracts, thereby failing to assure either program or fiscal accountability.

New branch leadership is struggling with these problems and should not have additional responsibilities thrust upon it at this time.

Location of Medical Audits and Collections Branch

The Health Audit and Collections Branch currently performs Medi-Cal fiscal audits, processes audit appeals and recovers improperly expended Medi-Cal funds. Table 4 shows the branch's organization.

Table 4
Health Audits and Collection Branch

Organizational Unit	*Currently budgeted positions*
Branch Office	2
Audits Bureau	159
Audit Appeals Bureau	14
Recovery Bureau	87
Total	262

Effective July 1, 1978, the Audits and Collections Branch will be transferred from the Department of Benefit Payments to the Department of Health Services. The non-Medi-Cal activities of this organization will be transferred to the new Departments of Mental Health and Developmental Services. Because this organization will service only the Medi-Cal program, its proper place is within the Medi-Cal Division. If located within the Medi-Cal Division, communication problems and inter-divisional disagreement are less likely to occur than if the organization is placed in the Administration Division which is primarily responsible for support services such as personnel, business services, program statistics, data processing, departmental accounting and budget development.

Location of the Investigations Section

The budget proposes that responsibilities of the current Licensing and Certification division of the Department of Health will be reassigned. The Community Care section (224.7 positions) is to be transferred to the Department of Social services, the Facilities Construction section (33 positions) will be transferred to the Office of Statewide Planning, and the Medi-Cal Social Review function (62 positions) has already been returned to the Medi-Cal division of the Department of Health Services. However, the Investigations section (75 positions) is to be transferred from the Medi-Cal division to the Health Licensing and Certification division which will then have 372.4 positions.

The proposed transfer of functions out of the Licensing and Certification division was intended to allow the division to concentrate on its primary function, the quality of care and the structural review of health facilities. The proposed transfer of the Investigations unit from the Medi-Cal division to licensing is inconsistent with this goal. Investigations section performs a function which is not closely related to the licensing and certification function, that is, following up on complaints of provider and beneficiary abuse of the Medi-Cal program.

PREVENTIVE MEDICAL SERVICES PROGRAM

Local Public Health Assistance

We recommend transfer of the Local Public Health Assistance section to the Public Health division central office, reporting directly to the deputy director.

The Local Public Health Assistance section is currently located within the Preventive Medical Services branch. It administers $9.1 million in state and federal funds for support of city and county public health programs. Responsibilities include general consultation and technical assistance to local health agencies in order to assure high quality services and the most effective and beneficial use of state and federal public health funds. Its other responsibilities in the new department will include coordinating activities with other sections of the proposed Public Health division and with the California Conference of Local Health Officers and various other governmental groups.

Inadequate State Health Program Coordination. The Public Health division has approximately 20 programs which relate to local health agencies. This multiplicity of programs has resulted in three unmet needs. First, county programs increasingly need a reliable contact point which will ease intergovernmental communications. This is particularly important for highly integrated local programs which may relate to several state program units on a given problem. Counties also have difficulty knowing whom to contact, because of staff turnover in the department and, the low visibility of many of these programs. Second, the division needs to have a central staff responsible for identifying specific areas where better state coordination is required. Local programs have noted that state regulations often result in needless duplication of services to clients. For example,

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multiple physical examinations may be given the same client upon receiving services from the Women, Infant and Child nutrition program, Family Planning program, or Child Health and Disability Prevention program due to lack of coördination of forms and funding mechanisms. Such unnecessary duplication needs to be identified and corrected. Third, greater coordination in annual plan and reporting requirements for local health agencies is required to allow an overall assessment of the health programs offered in the counties. Coordinated reporting would also reduce duplication of effort at the state and local level.

These needs have not been met by the Local Public Health Assistance section because of inadequate staff, inappropriate organizational placement and insufficient visibility. The Governor's Budget proposes an augmentation of three positions which are justified by workload. Transfer to the Public Health division office would increase the visibility of the unit and correctly identify the coordination process as a division level responsibility.

ENVIRONMENTAL HEALTH PROGRAM

Sanitary Engineering Section

We withhold recommendation on six sanitarian positions pending determination of appropriate organization placement of the Sanitary Engineering section.

The budget proposes $215,791 from the General Fund for six sanitarian positions. These positions would enforce drinking water standards and review reclaimed water projects.

We have examined this request and find that additional support for these functions may be needed. However, the State Water Resources Control Board has submitted a request for the transfer of the Sanitary Engineering section to the board, a transfer requiring enactment of legislation. Data from the board supporting the transfer proposal reject the need for the position increases should it occur. The board's position is based on an anticipated reduction in workload made possible by eliminating duplication of effort. We therefore withhold recommendation on the six positions until the issue of organizational placement for this section is resolved.

OCCUPATIONAL HEALTH PROGRAM

New Administrative Positions

We withhold recommendation on six proposed new administrative positions for the Occupational Health branch.

The budget proposes the addition of six positions to increase the administrative capacity of the Occupational Health branch. We have not been provided sufficient information to make a recommendation on the need for the proposed positions. Recently the branch chief and the head of the Occupational Carcinogen Control unit assumed new responsibilities. A management review study of the branch by the Office of Planning and Program Analysis of the Department of Health was postponed due to inability to gather data stemming from the substantial personnel problems. Under these circumstances the need of the branch for additional administrative staff cannot be determined.

Occupational Carcinogen Control Unit

We recommend that the Department of Health report to the fiscal subcommittees by March 1, 1978 on the reasons for the low productivity of the inspections conducted by the Occupational Carcinogen Control unit, and the steps being taken to correct the problem.

Chapter 1067, Statutes of 1976 (SB 1678), The Occupational Carcinogen Control Act of 1976 added carcinogen control responsibilities to the Occupational Health branch. The act requires employers to report to the department potentially hazardous uses of carcinogens (cancer causing substances). It also requires the Department of Health to notify firms using carcinogens of the requirements of the act, to establish priorities for inspections, and inspection of workplaces where carcinogens are used. The department must also provide consultation services to employees and employers, and collect inspection fees.

Inadequate Program Output

The Occupational Carcinogen Control unit (OCCU) had 27 industrial hygienist positions to perform inspections and provide consultations. Five of these positions have been transferred to a special occupational health and safety consultation unit for private employers, and three are unfilled due to reclassification procedures. This leaves 19 positions available for compliance inspections.

Output projections at the start of the year were 2,000 investigations per year. This figure was based on higher workload per investigator than for most occupational health investigators on the presumption that this type of compliance inspection would on the average be easier to perform. This estimate has since been reduced by 50 percent to 1,000 investigations per year. The output of the carcinogen unit, however, totaled 35 for the first quarter of 1977. At this rate, the unit will achieve 140 inspections for the year, or only 14 percent of the lower output projection (and 7 percent of the original estimate). At this rate, each of the 19 available industrial hygienists will perform only slightly more than one inspection every two months. This figure is exceptionally low even for a newly formed unit, and the Department of Health should report on the reasons why and the steps being taken to correct the problem.

MATERNAL AND CHILD HEALTH

Perinatal Section—Obstetrical Pilot Project

We recommend approval of the proposed obstetrical pilot project if it is augmented by one research position. If not augmented by one research position, we recommend the pilot project not be funded.

The budget proposes six positions for fiscal year 1978–79 for a cost of $294,194 ($133,683 General Fund) for a three-year obstetrical pilot project in medically underserved areas. Actual medical services would be funded through the Medi-Cal program.

The objective of the project is to increase the availability of obstetrical services to pregnant women in some rural areas. Services are now difficult to obtain in some areas because many physicians are reluctant to incur

DEPARTMENTAL SUPPORT—Continued

high medical malpractice insurance rates for a limited obstetrical practice. This problem is particularly severe for many Medi-Cal recipients.

This project would attempt to resolve some of these problems by altering the mode of payment for services through a capitation process rather than fee for services, and by assuring the referral of patients to providers. The project would use state staff to recruit providers in underserved areas. These providers would be paid monthly on a capitation basis for prenatal to early infant care. Local health and welfare departments, and the Contract Counties section of the Department of Health Services would refer patients. Cases where medical complications increase costs would receive additional payment after review by state personnel. State staff would also conduct field reviews of provider services for program monitoring purposes. The basic goals of the project are to 1) increase access to obstetrical care, 2) increase the amount of prenatal care, and 3) thereby reduce both the severity and cost of medical problems incurred by the mother and infant. Careful cost/benefit analysis of the project's results is essential for determining future programmatic direction.

The Need for Monitoring Pilot Projects

Pilot projects properly conducted provide valuable information, but without sufficient review, they are either wasteful or become low initial cost commitments for later program redirections. Pilot projects consequently require sufficient evaluation staff and clear reporting requirements. In our judgment the obstetrical pilot lacks sufficient evaluative staff. Current staffing includes: (1) a physician for provider recruitment and case monitoring, (2) two associate governmental analysts for contract management and review, contractor monitoring, and data collection, (3) two registered nurses for technical assistance to contractors and contractor monitoring, and; (4) a research specialist II as project director. The project director would qualify as a research position. However experience has shown that much of the director's time would be devoted to administrative problems. An additional associate level research position would be necessary to evaluate program results properly. Establishing required reporting dates would also encourage timely analyses.

Child Health and Disability Prevention Programs

We recommend a reduction of $45,946 in Item 244 (discussed in analysis of Item 252) for 5 temporary positions in the Child Health Information and Claiming unit due to insufficient workload.

In our discussion of Item 252 we recommend the deletion of $45,946 and the elimination of 5 temporary positions. The projected workload of the Child Health Information and Claiming unit indicates that the need for additional personnel is less than proposed by the Governor's Budget. However, the deletion of funds must come from the department's operating budget, Item 244.

RURAL HEALTH PROGRAM

Contract Counties Program

We recommend deletion of $287,997 from the General Fund (Item 244) requested for 10 new positions for the Contract County program.

We further recommend that legislation be enacted to allow additional program staffing through increased county support of this program.

Through the Contract County program the state Department of Health provides public health services to those counties under 40,000 in population which do not maintain their own health departments. These counties are obligated to appropriate not less than 55 cents per capita for health services. The state provides personnel and support which it considers appropriate for necessary public health services. Currently, 16 counties participate in this program. These counties have 1.3 percent of the state's population and 23.3 percent of its land area.

The Governor's Budget proposes 10 new positions for the Contract County environmental health program at a General Fund cost of $287,997. The positions would primarily work to improve water quality in the 16 counties. Increases in workload appear to justify these positions.

Funding Inequities

As compared to other counties, the per capita state contribution to the contract counties is disproportionately large. The local support of public health services by the contract counties is low as compared to other rural counties with health departments. The data in Table 5 shows the magnitude of the inequity for fiscal year 1976–77. The contribution per capita from rural counties with their own health departments was three times that from the contract counties. The state contribution per capita to contract counties, however, was almost twice as large as that to other rural areas, and 2.3 times the statewide average. The 1978–79 state contributions proposed in the budget would result in a state contribution which would be 3.6 times the statewide average. This inequity is compounded by differences in ability to pay. In fiscal year 1976–77, the contract counties had a greater tax base with an average of 50 percent more taxable assessed property value per capita than the statewide average. The property tax rates averaged 25 percent less.

Table 5
Per Capita State and County Expenditures
Rural Public Health Programs
1976–77

	Contract counties	*Other rural areas*	*(2–1) Difference*	*Statewide average, rural and urban*
County contribution	$2.83	$8.53	$5.70	unknown
State contribution	3.93	2.10	−1.83	$1.71
Total	$6.76	$10.63	$3.87	unknown
Projected 1978–79 state contribution	$7.82	unknown	-	$2.16

Some differences in state and county contributions for support of public health services may be warranted in the contract counties. It is possible

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that extra health problems are imposed on these counties by tourists who are not making proportionate contributions to the local economies (although there is no hard evidence of this). Even if this is the case, the increasing degree of differences in state and county contribution rates now constitutes a substantial inequity.

The following options are open to the Legislature:

(1) accept the current inequitable funding pattern and provide for the proposed positions;

(2) request that these counties maintain their own health departments, possibly on a regional basis; or

(3) increase the county contributions to fund any future program augmentations. Relative to this option, the state contribution per capita could continue to grow to cover increases in the cost of living.

We recommend the third option on the basis of equity considerations. The first option would increase state funding per capita by 99% since FY 1976–77 while the equivalent percent increase for independent counties would be only 26%. The second option would impose an undue hardship on these counties because of the high cost of independent health departments. The third option, while not eliminating the funding differences that exist between contract and noncontract counties, would at least prevent the difference from becoming even wider. It would also provide a stable funding base for providing necessary public health services in the contract counties. We therefore, recommend legislation which would require that future program augmentations be supported by county funds reimbursed to the state General Fund.

Contract Counties—Child Health and Disability Prevention Program

We recommend deletion of $35,242 in General Fund money ($71,399 all funds), for one public health nurse II and two public health assistants II (Item 244).

We further recommend that these positions be funded through increased contributions of county funds.

The Governor's Budget proposes $152,524 ($75,348 from the General Fund and $152,524 in total) for six positions in the Contract Counties section for support of Child Health and Disability Prevention services. This is an increase of 31.6 percent over estimated current year expenditures for this function.

The Child Health and Disability program is entirely funded from state and federal funds, although some counties contribute in-kind services. Local support for the program is generally funded through Budget Item 252, Support to Local Agencies for Health Services, and is administered by the Child Health and Disability Prevention section of the Maternal and Child Health branch. This section allocates funds to local health departments for nonmedical program support. However, the Contract County section provides child health and disability services to the 16 rural counties without health departments. In fiscal year 1976–77, the average allocation per eligible child for nonmedical services was $2.81 to local health departments and $14.34 to the Contract County Section.

Given this funding inequity, we would normally recommend against any additional positions for which the state would have to pay. However, we have examined the anticipated workload and find that an increase in staffing of three positions should allow the section to provide the necessary CHDP services.

Augmentations beyond this would support well-baby clinics or other general nursing services. While these services are desirable and needed, they are county responsibilities and should not be funded through CHDP allocations. We recommend that they be funded through additional county resources.

MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)

The Governor's Budget proposes an operating budget of $60,470,704 ($25,029,882 General Fund) for the state administrative costs associated with the Medi-Cal program. This is an increase of $5,444,137 or 9.9 percent over current year estimated expenditures. Current year expenditures are estimated to be 21.7 percent greater than 1976–77 expenditures. Table 6 shows Medi-Cal program state administrative expenditures for three fiscal years.

Table 6
Medi-Cal Program Expenditures for State Administration

	1976–77	*1977–78*	*1978–79*
Departments of Health and Health Services			
General Funds [a]	$14,543,241	$22,768,041	$23,342,127
Federal Funds	24,565,399	24,957,826	34,261,432
Subtotal	$39,108,640	$47,725,867	$57,603,559
Department of Benefit Payments—Social Services			
General Funds	$3,228,195	$3,148,700	$1,687,755
Federal Funds	2,862,738	4,152,000	1,179,390
Subtotal	$6,090,933	$7,300,700	$2,867,145
Grand Total	$45,199,573	$55,026,567	$60,470,704

[a] Includes funds not expended in the Medi-Cal division.

The Governor's Budget proposes that in 1978–79 the Medi-Cal Division will have 705.1 transferred positions and 107.5 new positions with a total operating budget of $46,070,191. Table 7 shows the organization of the proposed Medi-Cal Division and the number of existing and new positions proposed for the division.

Table 7
Medi-Cal Division
Currently Budgeted and Proposed New Positions
1978–79

	Authorized positions	*Proposed positions*
1. Division Office	8.4	
2. Alternative Health Systems Branch		
(a) Branch office	2.1	
(b) Prepaid Health Plans Section	37.2	2
(c) Pilot Projects Section	13	1
(d) Quality Evaluations Section	21.5	

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3. Operations Branch		
(a) Branch Office	2	
(b) Fiscal Intermediary Section	43.1	26.5
(c) Surveillance and Utilization Section	59	33.0
(d) Field Services Section	382.9	1
4. Program Policy Branch		
(a) Branch Office	3	
(b) Benefits Section	41.1	23
(c) Eligibility Section	61.7	21
	705.1	107.5

Medi-Cal Division—Fiscal Intermediary Transfer

We withheld recommendation on Item 246 pending receipt of material detailing staff needed for the transition to a new Medi-Cal fiscal intermediary.

The Governor's Budget requests $458,375 from the General Fund, ($820,323 all funds) for 26.5 positions which are intended to work on problems associated with the transition to a new fiscal intermediary system in the Medi-Cal program. A significant number of additional new positions will be requested if the proposed state takeover of certain functions now operated by the fiscal intermediary is realized.

If there is a change in the fiscal intermediary, there will be many transition problems which should receive the attention of the department in order to insure the continued payment of funds to providers of service on a timely basis. However, the budget material does not provide sufficient information to permit an analysis of the 26.5 proposed positions. Consequently, we are withholding a recommendation at this time. We recommend that a detailed justification for a transition staff to a new fiscal intermediary system be prepared and submitted.

Provider Agreements, Investigations and Surveillance and Utilization Review Activities

We recommend approval of 10 positions proposed for the provider agreement project at a 1978–79 General Fund cost of $144,836 ($268,215 all funds). These positions would be in addition to the five positions authorized by the Budget Act of 1977 to develop the outlines of a provider agreement program for approximately 66,000 non-institutional individual providers, most of whom are physicians. Currently individual providers are not covered by provider agreements.

The goal of the provider agreement project is to create an administrative mechanism whereby the Medi-Cal program can discontinue providers who practice dangerous medicine or who have consistently used the program in an improper way. The key feature of this mechanism would be a contractually binding set of minimum provider responsibilities. If the department's Investigation section or its Surveillance and Utilization Review section obtain evidence that a provider has failed to abide by his contractual responsibilities, that provider's contract to do business with the Medi-Cal program would not be renewed. In particularly bad cases, a provider's agreement could be terminated between renewals.

Much of the resources of the Surveillance and Utilization Review section and of the Investigation section focuses on the activities of the 66,000 individual providers in order to guard against medical and fiscal abuses. Expansion of the provider agreement procedure will allow the two units to concentrate more of their efforts in other areas of program fraud and abuse.

Drug Utilization and Review Unit

We recommend approval of five new positions for the drug utilization and review unit at a General Fund cost of $65,047 ($167,109 all funds). The Surveillance and Utilization section has a drug unit which audits pharmacies to determine if they are properly billing the Medi-Cal program for drugs provided. To date, the experience of the unit has been that 30 percent of the pharmacies have irregularities in 10 percent or more of the prescriptions filled. Examples of abuses commonly found are billing for services not performed, charging for more expensive items than those furnished, and splitting prescriptions into smaller quantities in order to obtain more dispensing fees.

The purpose of the additional five positions is to allow the drug unit to audit problem pharmacies in an in-depth manner on a three year cycle. This will make it possible to avoid substantial loss of recovered overcharges that now occurs because of the three year statute of limitations. The department estimates that the additional positions should make it possible to identify about $6.6 million in overcharges which are not now detectable.

Development of Medi-Cal Standards

We recommend approval of five new positions including three doctors to develop medical standards, at a General Fund cost of $120,619 ($284,172 all funds). These positions would develop departmental medical policies for surgical and other medical procedures which may be too frequently performed on patients. The department wants to establish minimum requirements before a treatment authorization request (TAR) could be approved for procedures such as a hysterectomy, tonsillectomy, gall bladder removal, or hemorrhoidectomy.

Pilot Eligibility Project in Los Angeles County

We recommend approval of seven requested quality control positions ($190,053 from the General Fund) for a pilot project on the quality of eligibility determinations in Los Angeles County. Currently the federal government requires random sampling of cases with in-depth reviews. These reviews, determine the percentage of Medi-Cal cardholders who are currently ineligible, or who are paying the wrong amount as their spenddown for medical expenses. The current sampling techniques do not apply to medically indigent (MI) adults because they are 100 percent state funded cases. The purpose of the project is to determine the percentage of the MI adult caseload that is ineligible for a Medi-Cal card, the percentage that pays the wrong amount as a spenddown and the percentage that should have been classified as medically needy thus qualifying for 50 percent federal funding. We recommend approval of the proposed seven positions. We also recommend supplemental language requiring the de-

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partment to provide the Legislature with a report on its findings when they become available.

Medi-Cal Auditing and Collection Activities

On July 1, 1978, the Audits and Collections Branch will be transferred from the Department of Benefit Payments to the Department of Health Services. This branch, which currently has 262 budgeted positions, is requesting 52.4 new positions. Table 8 shows the distribution of the proposed new positions among the three bureaus now in this branch.

Table 8
Medi-Cal Audits and Collections Branch

	Proposed new positions
Branch Chief's Office	0
Audits Bureau	5
Audit Appeals Bureau	18
Recovery Bureau	29.4
	52.4

Medi-Cal Audits

We recommend approval of the budget request to convert five clerical positions from temporary help to permanently budgeted positions.

The General Fund cost of these positions is $35,997 ($67,918 all funds). Through an oversight the five clerical positions used in the five regional offices of the Medi-Cal Audit program (largely hospital audits) have not been budgeted and have been provided through temporary help funds.

Audit Appeals

We withhold recommendation on 18 proposed new positions for the Audit Appeals Bureau.

The Governor's Budget proposes 18 new positions for the Appeals Bureau at a General Fund cost of $328,283 ($551,729 all funds). Two problems prevent the Appeals Bureau from processing its workload without undue backlogs. First, the number of personnel-hours required to process an audit appeal has been increasing as the appeals process has become more legalistic and as more complicated issues are raised. Secondly, the appeals workload has been increasing because a higher percentage of audits are being appealed, and because the state now audits nursing homes which results in additional appeals.

The bureau handles two levels of appeals. The first level is an informal conference for which the bureau provides the hearings officer who makes the decision on the appeal. The average case at the first level of appeal takes 40 hours of Appeals Bureau staff time. The second appeals level, is a formal audit appeal hearing at which time the bureau represents the state. At this level, the health care provider is regularly represented by legal counsel and the bureau called upon to answer interrogations, participate in discovery activities and prepare position papers in response to briefs. Time invested per case has gone from 94 to 153 hours.

There is currently a backlog of approximately 400 appeals at the first level and 200 appeals at the second level. This appears to be more than one year's work for existing staff. The bureau is anticipating more than 700 first level appeals and more than 200 second level appeals in 1978–79. The bureau informs us that rather strict administrative procedures require the state to process appeals within specified time frames. Failure to do so will result in the cases being dismissed which means that the state cannot recover the funds identified by the original audit. We are unable to make a recommendation on the 18 new positions, until the department presents current and budget year first and second level appeals projections, estimated production and backlogs with current staff and estimated production and backlogs with proposed staff. The department should also prepare a fiscal estimate of lost revenues resulting from backlogs.

Recoveries Bureau—Operations Section

We recommend approval of 19 new clerical positions for the Recoveries Bureau's Operations section.

Currently, the department does not send out payment demands for money owed the Medi-Cal program by health insurance carriers if an individual Medi-Cal patient's billings total less than $500. It does not have the staff to process the paperwork. In many cases, Medi-Cal recipients have some form of health insurance coverage which is liable for services already provided but totally paid by Medi-Cal. Nineteen clerical positions are proposed to send out payment demands in cases where the billings exceed $100. The bureau estimates that an additional $2.3 million in Medi-Cal recoveries will be generated by an additional $271,792 expenditure for clerical staff. We recommend approval of the positions.

Recoveries Bureau—Compliance Section

We recommend denial of 4.7 of the 10.4 positions requested for the Recovery Bureau's Compliance Section at a General Fund savings of $46,240 in Item 244.

The budget also proposes 10.4 positions for the Recovery Bureau's compliance section at General Fund cost of $104,309 ($196,809 all funds). We recommend the deletion of 2.3 new positions proposed to increase beneficiary overpayment recroupments. Based upon our review of the data we do not believe the additional workload anticipated from the Investigations Section referrals will occur. We further recommend deletion of 2.4 new positions for repayment agreements work because we cannot project with accuracy what number of repayment agreement requests will be generated as a result of surveillance and utilization audits. Some backlog in this area is tolerable until firm workload data can be developed.

ADMINISTRATION AND ADMINISTRATIVE PROCEDURES

Unauthorized Borrowed Positions

We recommend deletion of 40 borrowed positions ($923,324 in Item 244) for "Strike Force II" and the Management Support section of the Medi-Cal Division.

Normally, the department's Licensing and Certification Divisions would be responsible for enforcement of all standards relating to the

DEPARTMENTAL SUPPORT—Continued

quality of care provided in over 2,500 health facilities, including general hospitals, intermediate care facilities, clinics and skilled nursing facilities.

Recent administration efforts to improve the quality of care within the nursing home industry have also included the use of special investigative teams, collectively called Strike Force II. The teams are attached to the Governor's Office through a consultation contract with a private legal firm which provides leadership. Personnel (15 positions) from the Department of Health are on loan from Licensing and Certification Division, Medi-Cal Division and the Legal Office. Five auditors are also on loan from the Department of Benefit Payments.

In addition to the above positions there are approximately 20 positions on loan to the Management Support section in the Medi-Cal division from other departmental units.

We believe that Strike Force II and the Management Support section represent serious procedural budgetary issues for the Legislature because they were created without legislative review. We recommend that the approximately 40 positions currently on loan to these units be identified and deleted.

Guideline for Borrowed Positions

We recommend the department submit guidelines governing the use of borrowed positions to the fiscal subcommittees by April 1, 1978.

It is appropriate for the department to have enough flexibility to manage temporary workload shifts by temporary reassignment of positions. However, we have serious reservations about a policy which allows unlimited use of borrowed positions over long periods of time for almost any purpose. The department should submit guidelines for use of loan positions which limit borrowing and loaning of positions to specified time periods for specified purposes. These guidelines should then be reviewed at the hearings on the department's budget. If approved, the guidelines should be made binding by their inclusion in the supplemental language report to the Budget Act.

Budget Office Role

We recommend that in preparation of the 1979–80 departmental budget:

a. The Budget Office play a larger role in reviewing proposed new positions.

b. An improved procedure for updating written justification material be implemented.

c. Workload, productivity and cost/benefit data be included in the budgetary justification.

In reviewing the Department of Health Services budget, we discovered shortcomings in the budgetary process which can be corrected. First the department's budget office was not adequately involved in reviewing proposed budgetary changes for the 1978–79 budget. From a technical perspective, several of the written justifications for additional positions did not accurately reflect changes made by the department, the agency or the

Department of Finance in budgetary decisions. We believe that in the future more should be done to update budget justification material and include workload, productivity and cost/benefit data in its budgetary presentation.

Department of Health Services

FORENSIC ALCOHOL ANALYSIS AND MEDICAL EFFECTS OF AIR POLLUTION

Item 247 from the Motor Vehicle Fund Account, State Transportation Fund — Budget p. 574

Requested 1978–79	$302,466
Estimated 1977–78	306,683
Actual 1976–77	267,871
Requested decrease $4,217 (1.4 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 Services 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 100 licensed laboratories which employ over 500 people. Four professional, two laboratory assistants and two clerical positions are assigned to this program.

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 $302,466 from the Motor Vehicle Account in the State Transportation Fund, a $4,217 or 1.4 percent decrease from the current year.

Department of Health Services

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)

Items 248 and 251 from the General Fund — Budget p. 581

Requested 1978–79	$1,523,362,014
Estimated 1977–78	1,306,597,947
Actual 1976–77	987,795,627
Requested increase $216,764,067 (16.6 percent)	
Total recommended reduction	Pending

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
248	Cost of medical care and services	General	$1,449,319,000
251	Provider rate increases	General	74,043,014 [a]
			$1,523,362,014

[a] Of this amount $72,571,300 is for Medi-Cal provider rate increases.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Medi-Cal Funding. Recommend provisional approval of Item 248 as budgeted in the amount proposed, $1,449,319,000, for medical care and services provided by the Medi-Cal program. 485
2. Provider Rate Increases. Recommend approval of proposed general 6 percent rate increase for Medi-Cal providers and approval of proposed 40 cent an hour wage increase for nonadministrative personnel in nursing homes. 490
3. Tighter Medi-Cal Eligibility Procedures. Recommend approval of proposed regulations to tighten the Medi-Cal eligibility determinations for a General Fund savings of $25.1 million. 492
4. Restrictions on Drugs. Recommend approval of regulations regarding Medi-Cal program purchase of sedatives, antihistamines and cough medicines. 492
5. Ambulance Rates. Recommend approval of regulations to reimburse ambulances at medivan rate when ambulances are used as medivans. 493
6. Tighter Control Over Vision Care Services. Recommend approval of regulations to strengthen prior authorization controls over certain vision care services. 493
7. Data on Abortions. Recommend department gather data on Medi-Cal abortions needed for cost estimates. 494
8. Abortion Cost Savings. Recommend that during the budget hearings the department be prepared to discuss the legality and advisability of requiring Medi-Cal funded abortions to be performed in outpatient clinics or doctor's offices rather than in hospitals. 495

9. A New Estimates Bureau. Recommend the department submit a detailed proposal for the creation of a Medi-Cal cost estimates unit. 496
10. General Fund Loan. Recommend Budget Act language providing for a $45 million General Fund loan to the Health Care Deposit Fund to resolve cash flow problems. 497

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 in California in 1966, and pays for the health services received by California's AFDC and SSI/SSP (aged, blind and disabled) welfare recipients as well as for the services received by two other categories of persons, the medically needy and the medically indigent. AFDC and SSI/SSP welfare recipients are automatically eligible for free medical services. Medically needy and medically indigent persons must apply to their local county welfare department for a Medi-Cal card. Individuals qualify for the medically indigent and medically needy program based on income and medical expenses. Essentially, the program allows a medically needy or medically indigent individual to reserve a part of his income for living expenses while the remaining monthly income is devoted to medical expenses. If the amount available for medical services is insufficient to cover expenses, the Medi-Cal program pays the difference. The amount the individual is allowed to keep for living expenses is shown in Table 1.

Table 1

Medi-Cal Program Monthly Maintenance Needs Standards for Medically Needy and Medically Indigent Recipients

Family size	*Amount allowable for living expenses*
1	$253
2	383
3	475
4	567
5	650
6	725
7	800

Medi-Cal recipients are entitled to a full range of health services including outpatient visits to physicians' offices, drugs, dental services, inpatient hospital services, laboratory services, nursing home care and various other health-related services. There are a limited number of services the program will not pay for such as specific drugs or certain surgical procedures. There are also limits on some services. Admission to a nursing home and certain nonemergency surgical procedures, for example, also require prior state authorization.

Table 2 shows the number and percentage of recipients who used the Medi-Cal program to pay for services in the month of September 1977. The table shows that aged and disabled recipients use medical services much more often than AFDC recipients, while medically needy, blind, and medically indigent usage patterns are in the mid range.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

Table 2

Medi-Cal Program: Monthly Utilization Patterns by Aid Category

Category of Recipient	*Number of Medi-Cal eligibles*	*Number of users*	*Percentage of users to eligibles*
A. SSI/SSP Recipients:			
Aged	323,413	201,951	(62%)
Blind	16,994	7,729	(45%)
Disabled	345,780	216,702	(62%)
B. AFDC Recipients	1,439,006	450,646	(31%)
C. Medically Needy	328,600	159,293	(48%)
D. Medically Indigent	418,300	178,441	(43%)

Medi-Cal Cost Trends

The growth in Medi-Cal expenditures has been substantial since the program's inception in 1966. Table 3 shows annual General Fund increases in the program since 1967–68.

Table 3

Medi-Cal Program
General Fund Expenditure Trends
Program and All Administrative Costs
(in millions)

Fiscal Year	*General Fund*	*Percent Increase from prior year*	*Fiscal Year*	*General Fund*	*Percent Increase from prior year*
1967–68	$208.1	—	1973–74	$695.2	24%
1968–69	325.4	56%	1974–75	847.2	22
1969–70	392.9	21	1975–76	935.7	10
1970–71	489.8	25	1976–77	1,153.9	15
1971–72 [a]	509.2	4	1977–78	1,502.5	30 (est.)
1972–73 [a]	561.6	10	1978–79	1,743.6	16 (est.)

[a] Federal wage and price controls in effect.

There are several apparent reasons for the dramatic growth in the Medi-Cal program. Over the years eligibility criteria have been broadened to allow more people to receive benefits. In 1971 the Medi-Cal Reform Act extended eligibility at 100 percent state costs to medically indigent adults, who previously had been a responsibility of the counties. Services for medically indigent adults are estimated at $482.3 million in 1977–78. The passage of Chapter 1216, Statutes of 1973 (AB 134), made many more aged and disabled persons eligible for the Medi-Cal program although this effect was not anticipated at the time the legislation was passed. The passage of Chapter 126, Statutes of 1976, together with the department's regulations are estimated to have added $64 million (December estimates) to program costs covered by the General Fund in 1977–78, by expanding eligibility criteria for the medically needy and medically indigent. The provider rate increases granted by Chapter 1207, Statutes of 1976, are estimated to have cost $42.6 million in 1976–77 in addition to the regularly budgeted rate increases of $46.6 million. The development of sophisticated and costly medical technology has affected Medi-Cal program costs, as has the generally high rate of inflation in the health care industry as a whole. Private insurance companies along with the Medicare and Medi-Cal programs reimburse hospitals for almost any cost incurred, thus producing an environment in which there is little incentive to keep hospital operating costs down. The potential impact of cost containment incentives is substantial: it is estimated that loss of the hospital cost containment suit (California Hospital Associations vs. Obledo) will cost the General Fund $73,600,000 in the current fiscal year. The case is presently on appeal.

ANALYSIS AND RECOMMENDATIONS

We recommend provisional approval of Item 248 as budgeted in the amount of $1,449,319,000.

We recommend approval of Medi-Cal provider rate increases in the amount proposed—$72,571,300.

The Budget Bill contains two items which fund the state share of medical care and services provided to California's Medi-Cal recipients. Item 248 appropriates $1,449,319,000 and is the basic Medi-Cal appropriation. Item 251 is an appropriation of $74,043,014 for rate increases of which $72,571,300 is for Medi-Cal providers. In total the Governor's Budget proposes $1,521,890,300 for Medi-Cal program expenditures for health care and services. This is an increase of $216.5 million, or 16.5 percent, over the current year.

In May 1978, the amounts requested for Items 248 and 251 will be revised when the Department of Finance submits the latest available Revenue and Expenditure Budget Revisions to the Legislature. We recommend that the amounts proposed for the Medi-Cal program in Items 248 and 251 be provisionally approved pending receipt and review of the revised estimates. Table 4 compares the General Fund expenditures for basic care and service costs and rate increases over a three year period beginning in 1976–77, and Table 5 shows this history of state, county and federal expenditures for the Medi-Cal program beginning in 1966–77 through 1978–79.

Current Year Medi-Cal Deficit

In August 1977, the Department of Finance notified the Legislature that it appeared as though there was going to be a substantial current year Medi-Cal deficit—perhaps as much as $250 million General Fund. One month later the General Fund deficit was estimated to be $194.5 million. Initially, it was thought that the overrun was attributable to legislation, Chapter 126, Statutes of 1977 (SB 63), which was having the unanticipated effect of increasing medically needy and medically indigent caseloads.

As more information became available, it was evident that other factors had caused the caseload increase and resulting cost overrun. Most of the caseload increase resulted from the so-called "continuous eligibility" regulations which the department issued on its own initiative in its desire to

Table 4
Medi-Cal Program: General Fund Expenditures for Health Care Services Funded Through Item 248 Including Rate Increases [a]

1978–79 Budget Bill Item	*Description*	*1976–77*	*1977–78*	*1978–79*
248	A. Basic Medi-Cal program: Cost of patient's services	$863,796,500	$1,084,267,400	$1,449,319,000
251	B. Budgeted rate increases	46,646,549	48,902,249	72,571,300
	C. Proposed deficiency bill	0	94,269,470	0
	D. Loss of hospital cost containment lawsuit	28,614,700	73,600,000	(Included in A above)
	E. Governor's Budget proposal to increase wages in nursing homes	0	4,200,800	(Included in A above)
	F. Rate increase legislation	51,953,000	(Included in A above)	(Included in A above)
	G. Other legislation	6,122,878	470,000	0
	H. Unexpended balance	−9,338,000	0	0
	Subtotal: Cost of Basic Services to Patients	$987,795,627	$1,305,709,919	$1,521,890,000

[a] Excludes Short-Doyle, CHDP, Developmental Disability and Alcoholism-Drug Abuse expenditures for which the General Fund share is requested in items other than Item 248 of the Budget Bill. Excludes all state, county and fiscal intermediary administrative costs.

Table 5
Medi-Cal Program Expenditures by Source of Fund
1966–67 to 1978–79

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	1,136,089,305	42.8	362,900,280	13.7	1,153,998,477	43.5	2,652,988,062
1977–78 [a]	1,348,090,512	41.3	411,627,581	12.6	1,502,468,402	46.1	3,262,186,495
1978–79 [b]	1,557,701,947	41.4	463,081,000	12.3	1,743,616,895	46.3	3,764,399,842

[a] Estimated expenditures based on Governor's Budget.
[b] Includes transfers from Item 251 for price and provider rate increases.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

simplify the Medi-Cal eligibility determination process at the county welfare department level. In issuing thse regulations, the department badly miscalculated the overall effect the regulations would have on program costs. As it turned out, the savings in county administrative cost were much more than offset by the additional caseload which the new regulations produced. Another cost factor which was not apparent when the Medi-Cal cost overrun was first discussed with the Legislature had to do with funding for abortions. Approximately $25 million of the current year deficit relates to the state paying the federal share of abortion costs. This happened because in August, 1977, the federal government terminated its share of funding for nontherapeutic abortions. The administration decided to continue the abortions program at the same level even though there were no funds in the current year budget for that purpose.

The most recent data shows the current year deficit to be $100.2 million. The major reasons for the substantially lower estimate are summarized in Table 6.

Table 6

Reasons for Reduced Estimate of Medi-Cal Deficit
1977–78 Fiscal Year

	Savings (in millions)	
September 1977 Estimated Medi-Cal Deficit		$194.5
Decline in number of users	$56.5	
Unexpected audit findings	7.5	
Termination of LA County hospital eligibility waiver program	7.0	
Delay of training for nursing home personnel	7.7	
State hospital decertifications	12.8	
Increases in county share	2.6	
Other changes	.2	
Estimated costs not realized		94.3
January 1978 Estimated Medi-Cal Deficit		$100.2

The major savings is attributable to caseload reestimates. The department now feels that the effects of Chapter 126, Statutes of 1977, and the continuous eligibility regulations will not be as significant as projected earlier. In other words, the Department of Health believes that medically needy and medically indigent user caseloads leveled off in September instead of in January as projected earlier. In addition, AFDC and aged, blind disabled welfare recipients are evidently not using Medi-Cal services to the degree projected earlier. We have not seen user trend data which would allow us to confirm the department's understanding of user caseloads trends. Unfortunately, the department does not produce month-to-month comparisons of actual versus projected Medi-Cal users by service and aid category.

In addition to the projected major declines in users the department expects other savings to the Medi-Cal program (but not necessarily to the state) which were not anticipated earlier. For example, the decertifications of state hospitals save the Medi-Cal program money because the cost of hospital services cannot be charged against the program as long as the hospitals remain uncertified. This, of course, costs the General Fund even more money than it saves in the Medi-Cal program. Unanticipated audit findings in favor of the state have had the effect of shifting costs from the state to the counties. Another factor in the reduced estimate of the Medi-Cal deficit is the delay in starting a training program for nurses aides who work in nursing homes as provided by Chapter 1202, Statutes of 1976. Originally, it was estimated this program would start in July 1977. However, the December estimates indicate the program would not start until February 1978, thus saving $7.7 million. The list of savings is not complete, and only covers the major changes.

Expenditure Trends by Service Category

The Governor's Budget projects that General Fund Medi-Cal expenditures for care and services (excluding Short-Doyle costs and all administrative costs) will increase by $216.2 million. Eighty-eight percent of this increase is attributable to the first four categories of services shown on Table 7, i.e., professional services, drugs, hospital inpatient services and nursing home services. Of these four categories, only drug costs are estimated to increase by less than 15 percent. The cost of drugs will increase by more than the estimated 12.6 percent if proposed regulations do not go into effect.

There are several reasons for the $216.2 million increase. First, $72.6 million in rate increases are included in the 1978–79 Governor's Budget. Secondly, based on recent trends it is assumed that there will be more

Table 7
Medi-Cal Program
Projected Increases in General Fund Expenditures for Health Care Services Provided Through Item 248 (including rate increases) (in millions)

	1977–78	*1978–79*	*General Fund dollar increase*	*Percentage increase*
Professional Services	$453.5	$527.0	$73.5	16.2%
Drugs	91.9	103.5	11.6	12.6
Hospital Inpatient	693.9	802.0	108.1	15.6
Nursing Home/Intermediate Care Facilities	258.2	302.4	44.2	17.1
State Hospitals	44.4	50.7	6.3	14.1
Other Services	24.9	29.3	4.4	17.7
Prepaid Health Plans	29.8	35.0	5.2	17.4
Adult Day Care	.7	(In nursing homes)	–.7	N/A
Dental	68.5	73.5	5.0	7.3
Redwood Health Foundation	13.7	15.6	1.9	13.9
Medicare Buy-In	32.0	37.1	5.1	15.9
Medi-Screen Services	3.4	5.9	2.5	73.5
Other	2.4	3.0	.6	36.4
County Share	–411.6	–463.1	–51.5	12.5
General Fund Item 248	$1,305.7	$1,521.9	$216.2	16.5%

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

users of service and that more expensive categories of service users will tend to replace less expensive users, resulting in approximately $125 million General Fund increase. It is also assumed that more sophisticated, more costly kinds of care and/or services will continue to be introduced in 1978–79, adding about $43 million in costs, of which 75 percent can be attributed to hospitals.

State Hospital Services

The Governor's Budget estimates that Medi-Cal expenditures for state hospitals (all funds) will be $88,805,500 in the current year and $101,225,-700 in the budget year. Presently, the state hospitals receive Medi-Cal funds for the following: (1) Services rendered to Medi-Cal eligible patients under 21 and over 65 in acute psychiatric beds in state hospitals (federal law prohibits payment for Medi-Cal eligible adults between the ages of 21 and 64 in psychiatric institutions such as state hospitals) and (2) services rendered to Medi-Cal eligible developmentally disabled patients in State hospital beds licensed for skilled nursing level of care.

Effective August 1, 1977, four state hospitals, Agnews, Fairview, Pacific and Napa, were cutoff from Medi-Cal funding because licensing reviews identified substantial areas of noncompliance with applicable federal Medi-Cal regulations. Since that time, the skilled nursing program at Agnews has been recertified for Medi-Cal funding.

The current and budget year figures are based on specified assumptions related to: (1) recertification of the three currently decertified hospitals and (2) implementation of the Intermediate Care Facilities program for the Developmentally Disabled (ICF-DD) effective April 1, 1978.

There are, however, a number of other pending issues that impact on the state hospital Medi-Cal expenditures including the administration's proposal to add 3,054 positions at the state hospitals in the current year. Also, the April 1, 1978, implementation date for the ICF-DD program is in jeopardy because, as of late January, the proposed regulations had not yet been released for public hearing and existing law must be amended before the ICF-DD program can be implemented.

We have been advised by representatives of the Departments of Health and Finance that the projections for state hospital expenditures in the current and budget years will be updated when the May 1978 Medi-Cal Expenditure Estimates are submitted to the Legislature.

Provider Rate Increases for Medi-Cal (from Item 251)

We recommend approval of the proposed general six percent rate increase for Medi-Cal providers. Recommend approval of proposed 40 cent an hour wage increase for nonadministrative personnel in nursing homes.

The Governor's Budget proposes to grant various Medi-Cal providers a 6 percent rate increase in 1978–79. Larger percentage increases are proposed for nursing homes in order to increase wages of nonadministrative staff by 40 cents an hour in 1978–79. In total, the Governor's Budget requests $133.7 million (all funds) for Medi-Cal provider rate increases of which $72.6 million is from the General Fund. Of the General Fund amount, $28 million is proposed for nursing homes and the balance, $44.6 million, is for all other providers. The department has informed us that the 6 percent rate increase may not be evenly distributed among all providers and that depending on comparability data it may wish to give more to certain service categories than to others. As of late January no decisions had been announced as to the department's recommendations on differential rate increases or how such differential increases might effect increases for other providers.

Rate increases for hospital inpatient services have been built into Item 248 rather than into the rate increase item (Item 251). The state is required to fully reimburse hospitals for all allowable inpatient costs as a result of a federal court ruling in the California Hospital Association vs Obledo case. A 14.4 percent increase has been built into Item 248 for hospital inpatient services. This increase reflects recent inflationary trends in that service category.

Nursing Home Rate Increases

During the hearings on the 1977 Budget Bill, the Legislature augmented the budget to provide funds for wage increases for nonadministrative nursing home personnel. We supported the augmentation on the basis that nursing home employees were paid substantially less than employees in state and private hospitals who do similar work. We also believe that wage increases will help alleviate serious staff turnover problems in nursing homes. Following the passage of the Budget Act of 1977, the Governor vetoed $15.9 million which the Legislature had added for nursing home wage increases.

The 1978–79 Governor's Budget indicates the administration's intention to increase General Fund expenditures (and thus the Medi-Cal deficit) by $4.2 million in the current fiscal year to fund a nursing home wage increase of 16 cents per hour effective February 1978. For fiscal year 1978–79 the Governor's Budget proposes a 40 cent per hour wage increase over current wages for nonadministrative nursing home personnel.

We have been informed by the Department of Finance that the administration will support AB 1426. Consequently, the Legislature will receive a budget letter notification that the department intends to augment nursing home rates by the amount sufficient to increase hourly wages for nonadministrative personnel by 40 cents per hour. The rate changes would be effective March 1, 1978. Therefore, expenditures in addition to those shown in the Governor's Budget for provider rate increases in the current year should be anticipated.

PROPOSED SERVICE RESTRICTIONS

The administration is proposing service restrictions in the Medi-Cal program as a result of the estimated $100.2 million Medi-Cal program deficit. These restrictions will take the form of new Medi-Cal regulations with more demanding eligibility and reporting requirements, restricted access to certain drugs, vision care and ambulance services. The proposed Medi-Cal regulations are discussed below.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

Monthly Income Reports and Annual Eligibility Redeterminations

We recommend approval of proposed regulations to tighten the Medi-Cal eligibility determinations for a General Fund savings of $25.1 million.

Last year, the department issued regulations effective January 1, 1977 which instituted substantially less restrictive eligibility requirements for the medically needy and medically indigent. These regulations, called the continuous eligibility regulations, provided that recipients would have to fill out eligibility determination forms only once a year and the form could be sent through the mail. Prior to the continuous eligibility regulations, medically indigent recipients had to go to the local welfare office monthly and medically needy recipients had to apply quarterly. The administration is proposing to issue new eligibility regulations which will require medically needy and medically indigent persons to submit monthly one page income status reports and annually report in person to the county welfare department to redetermine eligibility. The Department of Finance estimates that these regulations will reduce program costs by $37.1 million ($30.1 million General Fund) because more frequent reporting will identify persons who do not meet the program's income and other requirements. However, because county welfare departments will incur additional administrative costs of $5 million when they begin to process the monthly income reports and interview the recipients more often, net savings to the General Fund will be $25.1 million. Table 8 shows the estimated net savings resulting from the proposed eligibility regulations.

Table 8
Estimated Net Savings of Proposed Eligibility Regulations
1978–79
(in millions)

	Federal	*State*	*Total*
Program savings	($7.0)	($30.1)	($37.1)
Increased county administrative costs	2.2	5.0	7.2
Net savings	($4.8)	($25.1)	($29.3)

We recommend approval of the proposed eligibility regulations because they should result in fewer ineligible persons receiving Medi-Cal benefits and in more accurate determination of individuals' spenddown obligations. The monthly income report concept has worked well in the AFDC program and we see no reason why it will not work in Medi-Cal program after recipients become accustomed to their new reporting obligations.

Proposed Drug Regulations

We recommend approval of regulations regarding Medi-Cal program purchase of sedatives, antihistamines and cough medicines.

The Governor's Budget assumes that new regulations will be issued which will reduce drug expenditures by $16.3 million in 1978–79 of which the General Fund share is $8.7 million. These regulations would completely eliminate Medi-Cal program purchase of prescription and over-the-counter sedatives, cough medicines and antihistamines used primarily for relief of hay fever and cold symptoms.

Proposed Ambulance and Medivan Regulations

We recommend approval of the proposal to reimburse ambulances at medivan rates when ambulances are used as medivans.

The Governor's Budget assumes that new Medi-Cal regulations will be issued to reduce certain reimbursement rates for ambulances. Currently, if the patient's condition is such that he could be transported by medivan but there is no medivan service available in the area, then an ambulance can be used at ambulance rates. Medical personnel in the field services section of the department determine by prior approval if the patient's condition is such that he should use a medivan rather than an ambulance. The administration proposes to reimburse ambulances in the future at the medivan rate when ambulances are used to transport medivan patients. However, the new regulations will also provide that all litter cases are to be reimbursed at the ambulance rate thus reducing the effect of the rate change on ambulance companies revenues. Table 9 compares ambulance rates to medivan rates. The Governor's Budget assumes that the new regulations will save $2,980,400 ($1,669,000 in General Funds). However, subsequent estimates indicate a savings of only $1,381,150 ($773,400 in General Funds).

Table 9
Comparison of Ambulance and Medivan Rates

	Ambulance	*Medivan*
Response to Call	$45.30	$9.90
Additional Mileage Rate	$1.85 per mile	.75 per mile
Waiting time fee beyond 15 min.	$6.50 per 15 min.	$3.40 per 15 min.
Night rate	$6.50 extra	$3.40 extra
Oxygen	$6.50 per tank	$5.60 per tank
Wheelchair	-0-	.60 extra
Litter case	-0-	$14.20 extra

The estimates also assume that the department will issue instructions to its field service personnel to consider more carefully prior approval requests in regard to medivan use to make sure that public transportation cannot be used. The Governor's Budget was built on the assumption that medivan use could be reduced 68 percent for a savings of $3 million ($1,680,000 in General Funds). Subsequent estimates assume that use of medivans can be reduced by only 36.5 percent for a savings of $1,610,750 ($902,000 in General Funds).

Tighter Control Over Vision Care Services

We recommend approval of regulations to strengthen prior authorization controls over certain vision care services.

The Governor's Budget proposes to tighten access to vision care services for a General Fund savings of $1.7 million in 1978–79. New regulations would reinstate prior authorization controls over the purchase of some glasses, contact lens and other eye appliances. Specifically, departmental optometrists would review the issuance of glasses and other eye appliances to individuals whose vision problems are minor, involving corrections of two diopters or less or when the prescription is less than two years old. The additional prior authorizations required before eye appliances can be

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

furnished will require a staff of 14, eight optometrist and six clerical positions which the department plans to obtain by redirecting staff from within the field services section. In addition, the new regulations would provide that a Medi-Cal patient could not visit an optometrist more than once every two years at program expense to determine if he needed glasses or if he required a different correction, unless there is an indication of some other eye problem. Finally a Medi-Cal recipient would no longer be required to use one of his two monthly Medilables (required for restructed services) when visiting an optometrist. This change would tend to make it easier for recipients to use the services of an optometrist which may increase costs.

ABORTION FUNDING

We recommend that the department compile a report on caseloads, costs and characteristics of individuals receiving Medi-Cal funded abortions in California to be submitted to the fiscal subcommittees by May 1, 1978.

We further recommend the department survey other states to find out what effect termination of all public funding for abortions has had in those states on the number of live births, Medicaid costs and welfare costs.

Effective August 1977, the federal government ceased sharing in the cost of most Medi-Cal funded abortions. Prior to that time, the federal government had paid 90 percent of Medi-Cal abortion costs. The Medi-Cal program now pays for approximately 82,000 nontherapeutic abortions a year which do not qualify for federal funding, at an approximate cost of $415 each. The department estimates that the partial-year cost to the General Fund of absorbing the 90 percent federal share in the current fiscal year is $24.8 million. The full year General Fund cost is $34 million.

Recently, Congress passed and the President signed the Labor-HEW appropriation act which contained language to expand somewhat the circumstances under which the federal government would share in the costs of an abortion. The Medi-Cal estimates do not take this into account, and the state share of total abortion costs may decline somewhat. The fiscal effect of this legislation will be taken into account in the revised May 1978, Medi-Cal estimates.

Because the Budget Act of 1977 does not contain funds to offset the decline in federal funding for abortions, the cost of continuing to provide abortions with state money—$24.8 million—is a major element in the projected $100 million current year Medi-Cal deficit. The Governor's Budget as submitted to the Legislature for 1978–79 contains the General Fund money which would be necessary ($35 million) to continue funding abortions at the current rate of approximately 82,000 nontherapeutic abortions a year.

Lack of Program Data

In connection with a proposed ballot initiative, we have attempted to estimate the fiscal impact of a change in public policy which would discontinue all government funding of nontherapeutic abortions in California. We were unable to do so, in part, because Department of Health does not have data indicating what percentage of the approximately 82,000 pregnant women have, or would be able to obtain, the funds needed for an abortion. (Privately funded abortions would continue to be legal even if public funding were discontinued.) A substantial but unknown percentage of women who currently rely on the Medi-Cal program for the cost of an abortion probably could obtain the approximately $175 needed to have an abortion in a clinical setting. Several other states terminated all public funds for abortions when the U.S. Supreme Court upheld the federal law which terminated federal funds for nontherapeutic abortions. If the termination of public funding in these states has actually had the effect of suppressing the abortions rate, then the number of publicly funded deliveries should show increases beginning in February or March 1978. Based on the experience of other states, it may be possible to estimate the Medi-Cal, welfare, education, developmental disability and other costs associated with the additional live births and then compare those costs to the savings associated with the discontinuance of publicly funded abortions.

We anticipate that efforts will be made to delete funds for abortions from the budget bill. Anticipating these efforts, we recommend that the Department of Health make every reasonable effort to obtain the required program data from other states by June when final budget decisions for 1977–78 will be made.

The department has very little information about the current abortions program. Records are not kept on the number of abortions funded monthly by the Medi-Cal program, even though these data are available on the computer tapes of paid medical claims.

We recommend that the department compile a comprehensive report on Medi-Cal funded abortions by May 1, 1978. Such report should include information on the number of abortions by month, age of patient at time of abortion, available family income, occupation of working parents, marital status of woman, relationship to welfare, number of other children, and cost and frequency of abortions in hospitals, clinics and physicians' offices. The purpose of the report should be to assemble the data with which it would be possible to make informed estimates of what would happen if public funding of nontherapeutic abortions ended.

Data on Abortions

We recommend that during the budget hearings the department be prepared to discuss the legality and advisability of requiring Medi-Cal funded abortions to be performed in outpatient clinics or doctor's offices rather than in hospitals.

In a random sample of 412 Medi-Cal funded abortions conducted by the department, 17 percent were performed in a hospital on an inpatient basis, 67 percent were performed in a hospital on an outpatient basis, 8 percent were performed in an outpatient clinic while the remaining 8 percent were performed elsewhere, presumably in a physician's office.

Although no good data exist on the subject, it appears the Medi-Cal program pays on the average about $415 per abortion in all types of facilities while the average cost to the program for obtaining an abortion from an outpatient clinic organized for that purpose averages approximately $175.

The department should review the possibility and advisability of requiring Medi-Cal funded abortions to be performed in organized clinics or other settings where total billing for the procedure is $200 or less. Exceptions would have to be permitted for high risk cases and individuals who live in areas with no available clinic.

MEDI-CAL COST ESTIMATES UNIT

We recommend the department submit a detailed proposal to the fiscal subcommittees by March 1, 1978 for the creation of a Medi-Cal cost estimates unit.

The Medi-Cal expenditure estimates are composed of two distinct elements, the base projection and special estimates. The base projections are derived from trends in the number of individuals receiving services and trends in cost per individual served. These base projections tend to be reliable for the part of the program they are intended to cover. Because the Medi-Cal program is subject to constant change in eligibility standards, cost sharing arrangements, and benefit entitlements past trends never fully reflect what is likely to occur in the future. Therefore, the base projections must be augmented to take into account new state and federal legislation, court rulings, rate increases, new federal regulations and other factors which influence costs.

Special estimates are those prepared for proposed legislation, court cases, regulation proposals, etc. It is in this area that the department's ability to project Medi-Cal program costs is especially weak. There are several reasons for this. First, there is no one unit responsible for special estimates which are jointly prepared by budget office staff and program staff at present. Responsibility for the end product is diffused and no special estimating skills or techniques have been developed because both program staff and budget staff have other ongoing responsibilities. A more serious problem is that virtually no data have been gathered on a systematic basis which would be useful in preparing special estimates. Consequently, budget office staff is often forced to rely on the intuition of program staff in order to generate the assumptions on which special estimates are based.

This situation is exacerbated by a departmental policy which provides that analysts must produce estimates even when there are no data upon which to base an assumption. The danger in this approach to estimating legislation is that major errors can and have occurred. The "continuous eligibility" regulations to simplify the paperwork process of determining Medi-Cal eligibility are a good example of this. The original estimates indicated there would be some increase in the number of Medi-Cal cardholders which would be offset by reduced administrative costs. Unfortunately the additional costs are not being offset by savings. The December estimates indicated that Medi-Cal eligibility simplifications resulted in $43.3 million General Fund unanticipated expenditures.

We are unable to recommend a specific number of personnel for the

Medi-Cal estimates unit, where the unit should be placed in the department, or how the unit should be funded (from redirected positions or new funds). However, we believe the following issues should be addressed in the department's response to this recommendation.

Access to Data Process Services. The department has made no systemic effort to use data processing services to extract available information from the wealth of data about the Medi-Cal program on the claims paid tapes. Responsibility for assembling such a data base should rest with an estimates unit. In order to assemble a data base the unit should have a computer terminal and be provided with appropriate technical staff (statisticians and programmers) who are capable of extracting the desired data.

Assignment of Responsibility. Responsibility for the production of all Medi-Cal estimates including all cost estimates of federal and state legislation should be consolidated. Work procedures and quality criteria for estimates should be specified in the material submitted to the Legislature.

Technical Assistance. The Department of Health should study the work procedures and staffing patterns in place in the Estimates Bureau of the Department of Benefit Payments prior to making decisions about how a Medi-Cal estimates unit should be organized. Both the Departments of Finance and Benefit Payments should be willing to provide ongoing technical advice during the early phases of the establishment of a Medi-Cal cost estimates unit because both organizations have personnel skilled in this subject matter.

General Fund Loan

We recommend the following language be included in the Budget Act: "Provided further that the General Fund shall make a loan available not to exceed $45 million to be transferred from time to time as needed to the Health Care Deposit Fund (HCDF) to meet cash needs. Provided further that any additional loan requirement in excess of $45 million shall be processed in the manner prescribed by Section 16351 of the Government Code."

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 $463,081,000 in the budget year. The law requires that counties pay their shares to the state on a monthly basis.

In the past, several counties have not made their monthly Medi-Cal program payments in a timely manner and have built up substantial past-due obligations. In order to correct this situation, in 1976–77 the Department of Health began a process of offsetting state funds due the counties for Short-Doyle programs and county Medi-Cal eligibility determination work, in addition to offsets already being made for county hospital Medi-Cal costs. This resolved part of the problem of overdue county Medi-Cal contributions.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

However, some counties still have outstanding obligations which were not satisified by the offset mechanism. Therefore, the department, working closely with the State Controller's Office, began to arrange repayment agreements with those counties which owed substantial amounts. In addition, the Controller will begin to collect interest on current year obligations which are more than 60 days old.

It is too early to determine if the combination of repayment agreements and interest on unpaid obligations will have the desired effect of further reducing outstanding county obligations. As of December 31, 1977, counties overdue obligations were $18.3 million out of a total 1977–78 county Medi-Cal obligation of $411.6 million. Of the $18.3 million in overdue Medi-Cal payments, $7.2 million were for obligations carried forward from the prior fiscal year by San Mateo and Santa Cruz counties.

Under current law, counties have until the end of the month to pay their monthly Medi-Cal obligations. If the county payments are not received within two weeks of the due date a notice is sent out indicating that the county will be required to pay interest beginning one month after the payment was due. The intent of this procedure is to recoup the interest that the state loses when it makes loans to the Health Care Deposit Fund to fully cover the county share.

It appears the department and the Controller's Office are doing what is possible within the limits of existing law, to avoid interest loss resulting from delinquent county Medi-Cal program payments. There will continue, however, to be some loss of interest for two reasons. First, counties are not requried to pay until the end of the month, whereas the state through the fiscal intermediary actually pays providers three times a month. In a fiscal year, the county's payments will be behind actual Medi-Cal program expenditures and the state will therefore always have to loan money at no interest to cover the one month lag. In addition, because the penalty for late payments is not imposed until 60 days after the due date, the state will continue to lose some interest on payments made more than 30 but less than 60 days are the due date.

The Budget Act language that we recommend would have two effects. First, it would reduce the volume of paperwork which is associated with the current process of monthly General Fund loans and loan repayments. Secondly, to the extent feasible, it would limit the department to loans to the Health Care Deposit Fund of $45 million. Currently, monthly General Fund loans to the Health care Deposit Fund average between $35 million and $45 million. Approximately one-half of the loan is attributable to late county Medi-Cal payments and the other one-half to a complex variety of federal funding arrangements over which the state has no direct control. Because the federal government could delay a fund advancement or decrease a sharing ratio, the $45 million might be inadequate in any one month. Therefore, the proposed language contains a provision which provides more than $45 million could be loaned under special conditions.

County Participation in Medi-Cal Program Funding

Under the Medi-Cal Reform Act of 1971, each county's contribution to the Medi-Cal program is set at a fixed amount which increases at the same rate as assessed values increase in the county. Between fiscal years 1971–72 and 1976–77, a county contributions increased from $241.3 million to $362.9 million, a 50 percent increase based on increases in county assessed values. During the same period, state Medi-Cal contributions increased from $504.2 million to $1,154 million, a 127 percent increase. Unlike the counties, the state was not protected against inflation and caseload growth. In percentage terms, the county share of total Medi-Cal expenditures has declined from 17.8 percent in 1971–72 to 12.6 percent in the current year. During the same period, the total federal share has declined slightly from 44.5 percent to 41.3 percent, while the state share has increased from 37.7 percent to 46 percent.

The most serious problem, however, is not the decline in the county share of Medi-Cal costs, but the inequitable distribution of the costs among counties. Essentially, the 1971 Medi-Cal Reform Act relates each county's contribution to the county's 1971 level of effort. Table 10 compares the tax rate equivalents counties must set to pay their medical obligations. This table shows that, for example, a homeowner living in a $40,000 home in San Joaquin or San Francisco counties contributed 60 cents per $100 of assessed value or $49 to the Medi-Cal program in 1976–77 while the same homeowner in Marin County contributed $12 based on a 15 cent Medi-Cal tax rate equivalent.

Table 10

County Property Tax Rate Equivalents [a]
for County Share of Medi-Cal Programs
1976–77

County	*Tax Rate*	*County*	*Tax Rate*	*County*	*Tax Rate*
Alameda	$0.40	Marin	$0.15	San Mateo	$0.27
Alpine	0.05	Mariposa	0.09	Santa Barbara	0.32
Amador	0.23	Mendocino	0.29	Santa Clara	0.29
Butte	0.32	Merced	0.50	Santa Cruz	0.34
Calaveras	0.25	Modoc	0.29	Shasta	0.24
Colusa	0.16	Mono	0.06	Sierra	0.10
Contra Costa	0.32	Monterey	0.35	Siskiyou	0.31
Del Norte	0.25	Napa	0.24	Solano	0.19
El Dorado	0.16	Nevada	0.37	Sonoma	0.37
Fresno	0.59	Orange	0.24	Stanislaus	0.53
Glenn	0.21	Placer	0.31	Sutter	0.45
Humboldt	0.37	Plumas	0.20	Tehama	0.24
Imperial	0.19	Riverside	0.35	Trinity	0.33
Inyo	0.30	Sacramento	0.49	Tulare	0.54
Kern	0.47	San Benito	0.23	Tuolumne	0.29
Kings	0.46	San Bernardino	0.34	Ventura	0.22
Lake	0.12	San Diego	0.24	Yolo	0.39
Lassen	0.26	San Francisco	0.60	Yuba	0.60
Los Angeles	0.51	San Joaquin	0.60		
Madera	0.37	San Luis Obispo	0.41		

[a] Tax rate equivalents expressed per $100 of state and local assessed value.

Department of Health Services

MEDI-CAL FISCAL INTERMEDIARY SERVICES

Item 249 from the General Fund — Budget p. 584

Requested 1978–79	$26,411,400
Estimated 1977–78	23,655,900
Actual 1976–77	20,670,697
Requested increase $2,755,500 (11.6 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Fiscal Intermediary Funds. Withhold recommendation pending receipt of budget support data. Recommend budgetary information be submitted on the fiscal intermediary operations with the May 1978, Medi-Cal expenditure estimates.	501

GENERAL PROGRAM STATEMENT

The state has contracted on a month-to-month basis with the Blue Cross North, Blue Cross South and Blue Shield insurance companies to act as the state's fiscal intermediary (FI) in the payment of provider claims since the inception of the Medi-Cal program in 1966. In 1972, the three insurance companies joined together in an organization called Medi-Cal Intermediary Organization (MIO) which presently processes the claims.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes an appropriation of $26,411,400 for the state share of the cost of operating the fiscal intermediary. This is $2,755,500, or 11.6 percent, more than the amount estimated for MIO operating costs in the current year. When the Department of Finance submits the revenue and expenditure budget revisions to the Legislature in May 1978, the amount requested for this item will be adjusted.

Proposed Deficiency Appropriation

As shown on Table 1, the administration will again propose a deficiency bill for the fiscal intermediary operations. The funds appropriated for the 1976–77 fiscal year were deficient by $4,065,300 because the state has chosen not to comply with a federal requirement that an automated system be instituted whereby Medi-Cal recipients would be notified of services billed in their name or in the names of their dependents. Failure to comply with the federal mandate causes a reduction in federal funding, requiring a commensurate increase in state funds for the fiscal intermediary. The federal share is projected to remain stable at 46 percent of the total in the current and budget years.

The 1977–78 estimated deficiency of $1,703,200 results primarily from an unexpectedly high workload. The Governor's Budget indicates a bill will be introduced to cover the deficiency.

Table 1
FISCAL INTERMEDIARY (MIO) OPERATING COSTS

Source of Funds	*1976–77*	*1977–78*	*1978–79*
Budget Bill	$17,284,800	$21,952,700	$26,411,400
Deficiency Bill for 1976–77 Fiscal Year	4,065,300	—	—
Proposed Deficiency for 1977–78 Fiscal Year	—	1,703,200	—
Unexpended Balance	679,421	—	—
General Fund	$20,670,679	$23,655,900	$26,411,400
Federal Funds	17,608,356	20,151,400	22,498,600
Fiscal Intermediary Total	$38,279,035	$43,807,300	$48,910,000

MIO Budget Process

We withhold a recommendation on the funds proposed for the fiscal intermediaries.

We further recommend the department present budget support material with the May 1978 Medi-Cal estimates which has sufficient workload, cost and narrative material to support and explain the request for the fiscal intermediary funds.

We also recommend that such backup material be routinely included with future December and May Medi-Cal estimates.

The budget request for the fiscal intermediary is compiled by the MIO and forwarded to the department which, after review, includes it in the overall request for Medi-Cal funds. The department will receive updated budget information from MIO which will serve as the basis for the revised request which the Legislature customarily receives with the Revenue and Expenditure Budget Revisions in May. There are essentially two parts to the fiscal intermediary budget, operating costs associated with Blue Shield/Blue Cross and data processing costs which are incurred by a subcontractor. In 1976–77, data processing accounted for approximately 40 percent of operating costs.

Table 2 shows the actual and estimated operating costs for the fiscal intermediary from 1976–77 through 1978–79. Unfortunately, the costs of data processing cannot be broken out separately due to the way the MIO budget estimate is compiled. These figures, which correspond to the totals shown in the Governor's Budget, do not take into consideration a 10 percent rate reduction for data processing which the subcontractor has voluntarily offered. This rate reduction will have to be considered when the revised request is prepared. Fiscal intermediary costs are projected to increase by 14.4 percent in the current year and by an additional 11.6 percent in the budget year. We have no support material which explains the factors behind these increases although they are higher than the increases experienced in prior years. Due to the lack of data we are withholding our recommendation.

At our request, the department has secured estimates of MIO data processing subcontract costs (all funds) for 1976–77, 1977–78 and 1978–79. The estimates appear in Table 3, and take into account the reduced data processing rates effective September 1, 1977.

MEDI-CAL FISCAL INTERMEDIARY SERVICES—Continued

Table 2
Total MIO Operating Costs Including Data Processing

	Current F.I. Medi-Cal staff	*1976–77 Actual*	*1977–78 Estimated*	*1978–79 Budgeted*
Blue Shield	559.0	$31,007,700	$34,575,000	$38,694,900
Blue Cross North	222.1	3,843,800	4,180,900	4,900,200
Blue Cross South	245.6	3,910,200	5,051,400	5,314,900
Reconciliations	n.a.	482,665	—	—
	1,026.7	$38,279,035	$43,807,300	$48,910,000

Table 3
MIO Data Processing Costs

	Costs	*Annual increase*
1976–77	$14,588,900	N/A
1977–78	15,166,900 (est.)	4%
1978–79	15,897,865 (Budgeted)	4.8%

Competitive Bidding—Fiscal Intermediary Contract

During legislative hearings on the 1977–78 budget, the Department of Health stated its intent to open Medi-Cal claims processing business to competitive bidding. The only Budget Act requirement the Legislature imposed on the proposed procurement project was informational. The administration was required to submit to the Legislature the Request for Proposals (RFP) intended to solicit bids, along with its evaluation procedures for selecting a fiscal intermediary from among the bidders, at least 60 days prior to the official release of the RFP. The Budget Act did not provide for legislative approval of the RFP's contents or the evaluation procedures. The information was submitted to the Legislature in August and in October 1977 the RFP was officially released with bids to be submitted in February 1978. The department will evaluate the bids for approximately four months after their submission. The department anticipates that a contract will be awarded sometime during the first six months of 1978–79. Fourteen companies or groups have filed letters of intent to bid and it appears that there will be at least five bidders, including a modified version of the present contractor.

Concerns Over Price

Because the fiscal intermediary contract has never been competitively bid there is no assurance that the present unit cost for processing a claim is competitive. In fact there are indications that it may be too high. An audit by Arthur Anderson and Company showed that profits (on costs) made by Electronic Data Systems Federal (EDSF), the company which does data processing for MIO, averaged 34.9 percent during the three-year operating period ending June 30, 1976. The EDSF profit rate from the Medi-Cal project was approximately twice as great as the profit rate it derived from its other corporate—wide business.

Contractual Shortcomings

The current data processing subcontract is a fixed price contract based on billing units per claim. Consequently the state does not share in the savings resulting from operating efficiencies achieved over time. In addition, the present contract with MIO is a no-profit no-loss contract which does not provide adequate fiscal incentives to management to introduce efficient operational procedures.

Dependency on the Fiscal Intermediary

Until recently the MIO contract provided that the fiscal intermediary could discontinue services after one month's notice. In addition the department asserts it does not have detailed knowledge of the claims processing procedures, especially in regard to the data processing software system which is privately owned and is, in substantial measure, written in a data processing language not commonly used by the state. The combination of these factors means that the state has not been in a position to assume claims processing itself in the event of a census disagreement with the fiscal intermediary, or to transfer the business to another vendor offering comparable services at a lower price. This has also made it difficult for the state to secure changes in the claims payment system when MIO did not support the changes.

Extending the State's Role

A significant part of the RFP is the proposal for the state to assume certain functions which heretofore have been wholly or partially performed by the fiscal intermediary. The Department of Health proposes to expand its authority in medical policy matters related to reimbursement of claims, certification of program providers, post payment claims review and utilization of services. It proposes to assume full responsibility for the collection of funds from insurance companies which have some obligation to the Medi-Cal program. These changes involve major budget decisions which are under consideration within the administration. As of late January the administration had not forwarded its request for new positions associated with the state takeover of the above mentioned fiscal intermediary functions. The new position requests shown in the Governor's Budget related to state assumption of fiscal intermediary functions have to do with the State Controller assuming issuance of checks to Medi-Cal providers and 26.5 temporary positions in the Department of Health Services related to the potential transition to a new fiscal intermediary. We discuss the proposed new positions for the controllers office under Item 47. The positions for the proposed Department of Health Services positions are discussed under Item 244.

For the reasons discussed above, the state has previously tried to develop alternatives to the current contract. Beginning in 1970, a consortium of three insurance companies (California Western Life, Occidental and Pacific Mutual) was encouraged to start a competitive claims processing operation on a pilot basis in San Diego and Santa Clara Counties. This alternative system, called Medi-Cal Management System (MMS) began operation in August 1972. In 1973, the state asked interested insurance companies to bid on the entire Medi-Cal claims processing business in

MEDI-CAL FISCAL INTERMEDIARY SERVICES—Continued

California. Only the present contractor, the MMS pilot group, and one other company submitted bids. The state did not accept any of the bids, claiming that the prices were too high and the proposals did not fully respond to state requirements. At the conclusion of this process, the state withdrew its funding for the pilot project operating in the two counties.

The events of 1973 did not resolve long-standing departmental concerns with the fiscal intermediary contract. In 1976, the Brown administration decided not to attempt a state takeover of Medi-Cal claims processing because of possible major federal reforms in the health field and because of organizational shortcomings in the Department of Health. However, it decided to make another attempt to bid California's Medi-Cal claims processing business. The administration was hopeful that bids would be more competitive and perhaps more responsive to the state's technical requirements, because a change in law permitted data processing companies and banks to enter the competitive bidding process.

The Goals of RFP Process

The current effort to bid the fiscal intermediary contract are intended to correct the problems discussed above. The goals are:

1. To obtain a lower price per claim within a contract of 5½ years duration.
2. To obtain a contract which will provide the fiscal intermediary with monetary incentives for efficient management and which simultaneously allows the state to share in the savings resulting from operating improvements.
3. To obtain a contract which has specific performance criteria and penalty provisions for poor performances.
4. To obtain complete state access to the details of the data processing system, and to obtain state ownership of the data processing software system so that the fiscal intermediary functions can be assumed or transferred to a new vendor in the event of serious future problems.
5. To obtain technical improvements to the claims processing system.
6. To transfer certain program functions to the jurisdiction of the state.

Legislative Review

The Legislature will approve or reject funding for proposed changes to the Medi-Cal fiscal intermediary operation through the Budget Act. If the state assumes any of the functions of the current fiscal intermediary, the department will require new positions which the Legislature will have the opportunity to review. In regard to the propsed new fiscal intermediary contract itself, the Governor's Budget as submitted makes no request for funds. If a new fiscal intermediary contract is issued, an appropriation will be required to fund the new organization's operations.

Department of Health Services

COUNTY ADMINISTRATION OF MEDI-CAL ELIGIBILITY DETERMINATIONS

Item 250 from the General Fund — Budget p. 584

Requested 1978–79	$110,270,400
Estimated 1977–78	90,818,600
Actual 1976–77	75,714,600
Requested increase $19,451,800 (21.4 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. County Administration Funds. Recommend provisional approval of $110,270,400 for county administration of Medi-Cal eligibility determinations pending receipt and review of revised May 1978 Medi-Cal estimates. 505
2. Review of Administrative Cost Control Plan. Recommend department submit requested information to permit a review of the effectiveness of county administrative cost control plan. 506

GENERAL PROGRAM STATEMENT

County welfare departments determine the eligibility of medically needy and medically indigent applicants for the Medi-Cal program. The costs of determining the eligibility of medically indigent children under age 21 and of the medically needy are shared equally between the state and the federal government. The costs of medically indigent adult eligibility determinations are 100 percent state funded. The counties pay no part of these administrative costs. Table 1 shows the cost of county administration in the three years covered by the budget.

Table 1
Medi-Cal Program Cost of Medically Needy and Medically Indigent Eligibility Determinations
(County Medi-Cal Administrative Costs)

	1976–77	*1977–78*	*1978–79*
Budget Bill appropriation	$82,823,700	$90,818,600	$110,270,400
Unexpended balance	7,109,090	—	—
General Fund	$75,714,610	$90,818,600	$110,270,400
Federal funds	$32,264,009	47,850,200	56,927,273
County Administration Total	$107,978,619	$138,668,800	$167,197,673

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes an appropriation of $110,270,400 for the state share of medically needy and medically indigent eligibility determinations in 1978–79 which is $19,451,800, or 21.4 percent, more than is estimated to be expended during the current year. Funds for a 6 percent cost-of-living increase for each county are included in the request. In May 1978, the amount will be adjusted when the Department of Finance submits the Revenue and Expenditure Budget Revisions to the Legislature. We recommend the amount proposed be provisionally approved pending receipt and review of the revised expenditure estimates for county administration.

Medi-Cal Administrative Cost Control Program

We recommend that the department submit information needed to evaluate the effects of the Medi-Cal County Administrative Cost Control program with the May 1978, Medi-Cal program estimates.

The basic concept behind the Administrative Cost Control program is that each county receives an allocation of funds for eligibility determination work within which it must operate. Those counties in which productivity per worker is low (compared with other counties) will receive smaller allocations than they actually require to operate at current levels. Such a county has two choices—either improve worker productivity in order to operate within the allocation or fund the deficit from county funds. There are three elements which are especially important to the success of a cost control program of this kind. First, the department must identify those counties with low productivity and establish their allocations based on reasonable and achievable productivity goals. Second, the department should not increase allocations except for unanticipated workload and other contingencies beyond the control of counties. Third, the department must reduce allocations when anticipated workload does not materialize. It is often harder to reduce allocations than it is to augment them, especially when the budget item contains surplus funds.

As of late January, the department had not finished compiling data on individual county performance in 1976–77 under the Medi-Cal County Administrative Cost Control plan. Therefore, we cannot determine which counties have improved the productivity of their eligibility workers or what the effect has been on the average cost per workload unit.

The information we request is needed to evaluate the performance of the cost control plan. Specifically, it includes: actual cost per workload unit in 1975–76 and 1976–77 by county and estimated cost per workload unit for 1977–78 and 1978–79; average number of workload units processed per eligibility worker by county for 1975–76, 1976–77, and estimated for 1977–78 and 1978–79; the percentage changes in the ratio of support costs to eligibility worker costs by county since 1975–76; actual and anticipated expenditures in excess of allocations by county from 1975–76 through 1978–79; and the percentage cost-of-living increases granted by counties in 1975–76, 1976–77 and 1977–78.

Department of Health Services

ASSISTANCE TO CITIES, COUNTIES AND LOCAL AGENCIES FOR HEALTH SERVICES

Item 252 from the General Fund and special funds — Budget p. 593

Requested 1978–79	$48,452,664
Estimated 1977–78	N/A
Total recommended reduction	None

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
252	Budget Bill Appropriation	General	$43,584,386
	Chapter 1037, Statutes of 1977 Transfer to Genetic Disease Testing Fund (loan)	Special	546,982
	Chapter 835, Statutes of 1975 Cystic Fibrosis	General	36,067
	Chapter 902, Statutes of 1975 Amniocentesis	General	40,000
	Chapter 1217, Statutes of 1975 High Risk Pregnant Women	General	1,640,712
	Chapter 606, Statutes of 1975 Indian Health	General	253,972
	Chapter 1196, Statutes of 1976 Rural Health	General	2,025,625
	Health and Safety Code Section 429.35	Special	50,000
	Chapter 215, Statutes of 1977 Genetic Counselors	General	274,920
	Total		$48,452,664

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Renal Dialysis. Recommend the Department of Health report on the need for four adult renal dialysis centers. 510
2. High Risk Pregnant Women. Recommend the Department of Health report on the status of the high risk pregnant women pilot project. 511
3. Family Planning. Recommend Department of Health report on the allocation of family planning local assistance funds. 513
4. Child Health and Disability Prevention Program. 514
   a. Recommend the Department of Health revise its local program funding formulas to permit a more equitable distribution of funds.
   b. Recommend deletion of five temporary positions in Department of Health Services support, for the Child Health and Disability Prevention program's Child Health Information and Claiming Unit, for a General Fund savings of $45,946 (see Item 244).

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

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund and special fund expenditure of $48,452,664 for Assistance to Cities, Counties and Local Agencies for Health Services. Of this amount, $43,584,386 from the General Fund is proposed in this item, $4,271,296 also from the General Fund is available from several previously enacted statutes, and $596,982 is available from special funds.

This item contains funds for 19 different programs administered by the proposed Department of Health Services. 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 244, Department of Health Services Support. We will discuss state administrative costs for some subitems 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 252
Fiscal Year 1978–79

Program	*General Fund in Item 252*	*Funds available from previous legislation*	*Federal funds*	*Total*
a. Tuberculosis control	$344,266	—	—	$344,266
b. Local health agencies				
(1) State formula funds	6,026,312	—	—	6,026,312
(2) 314(d) formula funds	—	—	$3,097,776	3,097,776
(3) Public health nursing services to the aged	711,519	—	—	711,519
Totals, Local Health Agencies	$6,737,831	—	$3,097,776	$9,835,607
c. Special medical care				
(1) Renal dialysis	$928,993	—	—	$928,993
(2) Cystic fibrosis	145,346	$36,067	—	181,413
(3) Hemophilia	1,094,079	—	—	1,094,079
(4) Genetically handicapped persons	295,740	—	—	295,740
Totals, Special Medical Care	$2,464,158	$36,067	—	$2,500,225
d. Genetic disease prevention				
(1) Sickle cell anemia	$435,372	—	—	$435,372
(2) Amniocentesis	487,600	$40,000	—	527,600
(3) Health services—pregnant women	—	1,640,712	—	1,640,712
(4) Genetic counseling	—	274,920	—	274,920
(5) Genetic testing	—	546,982 [a]	—	546,982
Totals, Genetics	$922,972	$2,502,614	—	$3,425,604
e. Tay Sachs disease	$393,260	—	—	$393,260
f. Immunization assistance	911,283	50,000 [a]	—	$961,283

g. Indian health	2,182,387	253,972	—	2,436,359
h. Family planning	22,498,985	—	$4,000,000	26,498,985
i. Maternal and child health	—	—	9,642,708	9,642,708
j. Child health and disability prevention	7,129,244	—	5,301,785	12,431,029
k. Rural health	—	2,025,625	—	2,025,625
Totals	$43,584,386	$4,868,278	$22,042,269	$70,494,933

[a] Special funds.

A. Tuberculosis Control

We recommend approval.

This subitem proposes $344,266 from the General Fund for distribution to counties for tuberculosis care and control. This is $5,345, or 1.5 percent, less than the amount estimated to be expended during the current year. Most tuberculosis care and control is financed and carried out at the county level. Department data obtained from the counties indicates that they expend approximately nine times the state contribution for TB control.

Whereas the incidence of tuberculosis has declined nationwide, California has held steady with 3,620 reported cases in 1976 and 3,618 in 1975. The new cases are often found among new residents, particularly immigrants.

B. Local Health Agencies

We recommend approval.

This subitem has three parts:

1. State formula grant: The budget proposes $6,026,312 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 $341,112, or 5.7 percent, above 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 county population. 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. The Contract Counties program is discussed in Item 244.

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 the 42 local health departments for public health services. These funds are distributed on a modified population basis.

3. Public health Nursing to the Aged. The budget proposes $711,519 from the General Fund for county projects to provide public health nursing services to the aged. This is $47,141, or 7.1 percent, over the amount estimated to be expended during the current year. There are 12 counties

presently participating in the program and they are required to provide at least 50 percent of the program support. County matching funds may be in the form of cash, facilities or services on the basis of local project plans submitted to and approved by the Department of Health Services. The program was established by Chapter 1168, Statutes of 1975.

C. Special Medical Care

This subitem has four parts:

1. Renal Dialysis Centers

We recommend that the Department of Health report to the fiscal subcommittees by June 30, 1978 on the three-year projected need for the four adult renal dialysis centers.

The budget proposes $928,993 from the General Fund for financial assistance to four adult and three pediatric renal dialysis centers. This is an increase of $52,585, or 6.0 percent, over the amount estimated to be expended during the current year.

Chapter 1416, Statutes of 1972, established four state supported regional dialysis centers for those suffering from chronic kidney failure. Subsequent legislation established the three pediatric centers. These centers were established in response to the then inadequate facilities for treatment of this medical problem. A 1968 report by the State Department of Public Health showed that only 15 renal dialysis centers were operating at that time with a caseload of 79 patients.

Since then, three developments have occurred which increased the availability of dialysis treatment and thus may have reduced the need for state support of the state regional centers. First, home dialysis programs have been developed as a lower cost, more convenient mode of treatment. Second, the Medi-Cal program now pays for dialysis for those who are eligible. Third, the number of dialysis treatment centers has expanded greatly, partially in response to the inclusion of the procedure as a Medi-Cal service. The Department of Health reported that 91 facilities were treating 2,368 patients in October 1974. Currently, there are 107 facilities including the four state centers. The need for the continued funding of the present state supported centers should be reassessed.

2. Cystic Fibrosis

We recommend approval.

The 1978–79 budget proposes an expenditure of $181,413 for the care of financially eligible people with cystic fibrosis. This is an increase of $8,413, or 4.9 percent, over the current year estimated expenditure. The total amount consists of $145,346 from Item 254, and $36,067 from Chapter 835, Statutes of 1975.

The cystic fibrosis allocation, along with support from the Genetically Handicapped Persons program, finances the medical care of people with this disease. There are currently 111 adults participating in the program.

3. Hemophilia Services

We recommend approval.

The budget proposes an expenditure of $1,094,079 from the General

Fund for the care of financially eligible people with hemophilia. This is an increase of $61,329, or 5.9 percent, over that estimated to be expended during the current year. This program now will be entirely supported by Budget Act appropriations.

The hemophilia allocation, along with funds from Genetically Handicapped Persons program, currently supports 356 adults with this genetic disease.

4. Genetically Handicapped Persons Program

We recommend approval.

The budget proposes $295,740 from the General Fund for the Genetically Handicapped Persons program—$88,000, or 22.9 percent, less than estimated expenditures for the current year. This decrease is due to termination of funds available from Chapter 1212, Statutes of 1976. The Department of Health states that approximately $80,000 available in the current year will revert due to lack of caseload.

This program was established in January 1977, to provide care to Californians with hemophilia, cystic fibrosis, or sickle cell disease. It primarily provides case management services and utilizes other sources of financing medical services, but helps in paying for medical care if it is needed.

D. Genetic Disease Prevention

We recommend approval.

This subitem has five components.

1. *Sickle Cell Anemia.* The budget proposes $435,372 from the General Fund for sickle cell anemia research, consultation, counselor training, and other activities. This is $24,644 or 6.0 percent over the amount estimated to be expended during the current year. The Genetically Handicapped Person's Program discussed previously pays for the medical treatment cost for persons with sickle cell anemia, while this program primarily provides funds for research, prevention activities, and screening. Sickle Cell Anemia primarily affects blacks.

2. *Prenatal Testing—Amniocentesis.* For the Amniocentesis program the budget proposes $527,600, which is $27,600, or 5.5 percent, more than is estimated to be expended during the current year. This program supports prenatal tests for several genetically handicapping diseases. Tests are normally given to those who are considered to have a high health risk. During the first nine months of fiscal year 1976–77, 1,800 tests were conducted with 56 abnormalities being discovered. These discoveries resulted in 44 abortions. The average cost of the amniocintesis test was $425 with state funds contributing an average of $52. It is estimated that substantially more tests will be given during the current and budget years than were provided during the past fiscal year.

3. *Health Services—High Risk Pregnant Women. We recommend that the Department of Health report to the Joint Legislative Budget Committee, the fiscal subcommittees, and the relevant policy committees by April 1, 1978 on the status of the high risk pregnant women pilot project.*

For this project, the budget proposes $1,640,712 from the General Fund, which is $1,075, or 0.1 percent, less than estimated expenditures for the

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

current year. This is a pilot program funded from Chapter 1217, Statutes of 1975, to provide prenatal care to women with a high risk of delivering defective, handicapped, or still born infants. The project is due to terminate on January 1, 1979.

The program currently has a project operating in Fresno County. This year the project anticipates screening 3,000 potential high risk pregnant women and treating between 700 and 1,000 of those screened. Services include prenatal to one month post-partum care.

The High Risk Pregnant Women project has experienced difficulties in implementation. A special rate and fee schedule for private physician services has just been approved, and the project has operated without a project director since inception. The project expires in less than a year.

A report on the project, which was due to the Legislature June 30, 1977, is still under review by the Health and Welfare Agency. Because the project is due to terminate on January 1, 1979, the department should report to the Legislature on its results. The agency has had the overdue report for three months.

4. *Genetic Counseling.* The budget proposes $274,920 for genetic counseling which is $179,161, or 187 percent, more than estimated to be expended during the current year. This program, funded from Chapter 215, Statutes of 1977, requires the Department of Health to contract with private or public agencies to provide genetic counseling services to those persons who have a high risk of giving birth to children with genetic handicaps. The projected increase over the current year is due to full program implementation.

5. *Genetic Testing.* The budget proposes a $546,982 loan to this program from the Genetic Disease Testing Fund. This is $96,982 or 21.6 percent more than is estimated to be expended during that current year. This appropriation promotes a statewide program of testing, information and counseling services for use in administering appropriate tests to each child born in California. Exceptions are made in cases of parental objections. The costs of the tests are to be supported by fees collected.

Pursuant to state law funds for the Genetic Testing Fund are loaned from the General Fund upon approval of the Director of Finance, to be repaid from fees paid by those receiving the service under conditions specified by the Director. All such loans must be repaid in full by June 30, 1982.

E. Tay-Sachs Disease

We recommend approval.

This subitem proposes $393,260 from the General Fund for the Tay-Sachs screening program. This is an increase of $21,000 or 6 percent, over the estimated expenditure for the current year. Tay-Sachs is a genetic disease which causes death in the first years of life, and primarily affects Jews.

F. Immunization Assistance

We recommend approval.

This subitem proposes $911,283 from the General Fund and $50,000 from the Immunization Adverse Reaction Fund ($961,283 total)—$195,783, or 25.6 percent, more than the estimated current year expenditure. The major portion of the increase results from an accounting change which transfers $152,853 from departmental support to this item.

G. Indian Health Services

We recommend approval.

The budget proposes an expenditure of $2,436,359 for financial, training, and technical assistance to 9 urban and 16 rural Indian health projects. This amount is $166,924, or 7.4 percent, more than is estimated to be expended during the current fiscal year. The amount consists of $2,182,387 from Item 252, and $253,972 from Chapter 606, Statutes of 1975.

H. Family Planning

We recommend that the Department of Health report to the Joint Legislative Budget Committee, the relevant policy committees, and the fiscal subcommittees by April 1, 1978 on the allocation of family planning local assistance funds.

The budget proposes $22,498,985 from the General Fund for family planning which is an increase of $5,047,112 or 28.9 percent over the current year. The current year estimated expenditure of $17,451,873 is 27.6 percent higher than the amount expanded in the past fiscal year.

Existing law requires the Office of Family Planning to survey the availability of family planning services in each county. The office is to evaluate all existing family planning programs, and to establish a viable program for the dispensation of family planning, infertility, and birth control information and techniques.

The program is not well planned. Expansion of the program has been based predominantly on the demand experienced by providers currently under contract, and not on a rational plan for providing comparable services in all counties. Program inconsistencies are apparent in the availability of services: male sterilization services are offered in only 20 counties, (four other counties have dropped out), information and education in 13, and female sterilization in three. Of these particular services, only one female sterilization contract went to a rural county that has its own health department. We recommend that the department report on the need for the various types of services in each of the counties, the availability of these services from state, other governmental and private resources, and the manner in which the department plans to meet currently unmet service needs, including modes of provider recruitment.

I. Maternal and Child Health

We recommend approval.

This subitem contains $9,642,708 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 and intensive newborn care. This is an increase of $545,813 or 6 percent over estimated current year expenditures. The Maternal and Child Health Branch intends to emphasize perinatal care in reviewing and approving projects for the budget year.

J. Child Health and Disability Prevention Program

The budget proposes $7,129,244 from the General Fund, and $5,301,785 in federal funds for support of the Child Health and Disability Prevention (CHDP) program, or $12,431,029 total. Local assistance funds will go (1) to local health departments through allocations for nonmedical program support, (2) to enhance outreach to Medi-Cal recipients, mainly through allocations to local welfare departments, (3) for payment for medical screening services to first graders not eligible for the Medi-Cal program and (4) for reimbursements to schools for program support. The budget also proposes $3,037,816 in Item 244, support for the Department of Health Services, to provide state administration of the program.

The CHDP was established by Chapter 1069, Statutes of 1973. County health departments with the support of county welfare departments and local school districts, provide outreach, preventive health education, screening, followup, referral for diagnosis and treatment, provider recruitment, and client recordkeeping. The Department of Health (DOH) provides funding, standards, and local program support. All children under six, and all Medi-Cal recipients under age 21 are eligible for services. Efforts are currently targeted at those entering first grade and Medi-Cal eligibles. First graders are eligible for free screening if their family's income falls below 200 percent of the Aid to Families with Dependent Children (AFDC) income eligibility criteria. The Medi-Cal program pays for screening, diagnosis and treatment for those eligible. The DOH estimates 320,000 screenings for this fiscal year, and approximately 420,000 during the budget year.

The CDHP program is highly complex and requires extensive nonmedical support for the range of activities it must perform. Compliance with federal regulations accentuates the nonmedical service aspects by requiring extensive documentation and evaluation with a heavy emphasis on outreach and followup. Currently, the DOH estimates that 1.67 million children will be eligible for services within the target population in fiscal year 1978–79, and that 421,000 of those will be screened.

Inappropriate Local Funding Formulas

We recommend that the Child Health and Disability Prevention program revise its funding formulas to permit a more equitable distribution of funds.

The CHDP program will allocate almost $5 million to local health departments for nonmedical support services. This funding goes to maintain the basic program structure at the local level, and includes support for administration, outreach, followup and a variety of other services. The current allocation formula used by the CHDP program discriminates against the large urban areas. Los Angeles, for example, receives only 60 percent of the statewide average allocation per client in the target population. Some of the smaller counties receive more than ten times the average. Support for state personnel who administer the CHDP program in the contract counties—those without a county health department—is five times the statewide average. Table 2 shows the average reimbursement and the percentage of the target population screened, by county size.

Table 2
CHDP Program Allocations and Percent Screened by County Size
1976–77 [a]

County size	*Program Dollar allocation per client*	*Percent of first graders screened*	*Percent of Medi-Cal clients screened*
Counties without health departments [b]	$14.34	59.3%	24.4%
Small	4.19	45.5	21.5
Medium	3.09	21.1	17.7
Large	2.78	11.5	5.6
Los Angeles	1.69	29.1	3.4
Average	2.81	28.3	11.7

[a] 1976–77 data is used since it is the latest available for screening results. Current year allocations are similar to the above but slightly higher.
[b] This funding comes from Budget Item 244, Department of Health Services Support, and funds the contract county program. It is not controlled by CHDP program personnel or allocation formulas.

Child Health Positions (Recommended Deletion in Item 244)

We recommend deletion of five temporary positions: one senior account clerk, two account clerks II and two clerk typists II for a total savings in Item 244, support for the Department of Health Services of $87,243 ($45,946 General Fund).

The Child Health and Information Claiming Unit (CHIC) processes and pays for CHDP's state and Medi-Cal funded screening services. The unit is funded from local assistance funds with 40 current temporary positions. The budget recommends an augmentation of 16 positions, eight of them with permanent status. Table 3 shows the number of claims processed monthly with the existing staff. On the basis of the existing caseload per staff member we estimate the total anticipated workload can be met with the reduction of five positions.

Table 3

	Actual 1975–76	*Actual 1976–77*	*Estimated 1977–78*	*Projected 1978–79*	*Projected minus five staff 1978–79*
Claims per month [a]	8,670	17,170	27,833	35,083	35,083
CHIC Staff [a]	13	25	40	56	50
Claims/staff/month	667	688	696	626	687

[a] Data from a table prepared by the CHDP staff.

K. Rural Health

We recommend approval.

The program proposes an expenditure of 2,025,625 from Chapter 1196, Statutes of 1976, which is $74,375, or 3.5 percent, less than the estimated expenditures for the current fiscal year. This program has three subparts:

(1) the California Health Services Corps which attempts to bring health professionals into rural areas receiving inadequate health services, (2) Health Service Development Projects which attempt to demonstrate effective ways of providing health care services in underserved rural health areas, and (3) coordination of state efforts in rural health in order to maximize effective use of scarce medical resources.

Department of Health Services

ASSISTANCE TO CITIES, COUNTIES AND LOCAL, PUBLIC AND PRIVATE NONPROFIT AGENCIES FOR CRIPPLED CHILDREN'S SERVICES

Item 253 from the General Fund — Budget p. 578

Requested 1978–79	$27,231,704
Estimated 1977–78	27,028,767
Actual 1976–77	21,764,194
Requested increase $202,937 (0.8 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 which are provided in conjunction with the Department of Education.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes $27,231,704 from the General Fund for assistance to local Crippled Children Services (CCS), an increase of $202,937, or 0.8 percent, over the current year. In addition to the amount in this item, a provider rate increase of $1,244,934 for the CCS program is proposed in Item 251. This amount will provide an overall 6 percent increase for nonphysician services in the program.

The budget also proposes $2,137,238 from the General Fund, in Item 244 for departmental support of this program. This represents an increase of $559,767, or 35.5 percent, above estimated current year expenditures. The proposed funding includes $243,558 for nine positions for direct case management in counties without county run programs. We have examined the workload requirements and agree with a Department of Health study that there are not enough managers in the state regional CCS offices.

Most of the remaining increase in support, $201,664, is the result of an accounting change whereby the hemophilia program will be included in the Crippled Children's Services program. Table 1 shows the total funding of the CCS program by source of funds.

Table 1
Crippled Children's Services
Proposed Source of Funds

	1977–78	*1978–79*
Family Repayments	965,000	965,000
County Funds	9,546,999	9,648,144
Health Care Deposit Fund	1,128,995	1,196,735
Federal Funds	4,230,000	4,483,800
General Fund, Item 253 Local Assistance	27,028,767	27,231,704
General Fund, Item 244 Department of Health Services Support	1,577,471	2,137,238
General Fund, Item 251 Price and Provider Rate Increases	(1,027,950)	1,244,934
TOTALS	44,477,232	46,907,555

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

Table 2
Crippled Children's Services
Proposed Expenditures by Program

	1977–78	*1978–79*
Diagnosis	1,891,669	1,896,425
Treatment	28,822,295	30,153,591
Therapy	9,672,465	10,123,113
Medi-Cal Administration	1,108,658	1,175,177
County Administration	1,379,107	1,396,443
State Administration	1,577,471	2,137,238
Non-County Residents	25,565	25,565
Price and Provider Rate Increase	-	(1,244,934)
TOTALS	44,477,232	46,907,555

Department of Health Services
LEGISLATIVE MANDATES

Item 254 from the General Fund — Budget p. 587

Requested 1978–79	$169,488
Estimated 1977–78	169,488
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item is 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 254 only contains reimbursements for health programs.

The item appropriates $169,488, which is the same amount provided for the current year. The mandating legislation and the estimated costs for 1978–79 are:

1. Chapter 954, Statutes of 1973 (X-ray)	$126,011
2. Chapter 453, Statutes of 1974 (Sudden Infant Death Syndrome)	8,497
3. Chapter 835, Statutes of 1975 (Cystic Fibrosis)	15,900
4. Chapter 1202, Statutes of 1976 (Nursing Assistants)	19,080
Total	$169,488

Descriptions of these mandates are found on page 587 of the Governor's Budget.

Health and Welfare Agency
RESERVE FOR REORGANIZATION EXPENDITURES

Item 255 from the General Fund — Budget p. 617

Requested 1978–79	$3,000,000
Estimated 1977–78	N/A
Total recommended reduction	$2,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Reserve for Agency Reorganization. Reduce Item 255 by $2,000,000.* Recommend reduction from proposed expenditure for support costs in the Departments of Health Services and Social Services. 518

Reorganization of the Health and Welfare Agency

We recommend a reduction of $2,000,000 from the proposed appropriation of $3,000,000 in Item 255 to provide funds for support costs for programs in the Departments of Health Services and Social Services.

The budget proposes an appropriation of $3,000,000 from the General Fund to make funds available to the Departments of Health Services and Social Services for increased support costs for programs in the Department of Health that will be reassigned to the separate departments created by Chapter 1252, Statutes of 1977, (SB 363) effective July 1, 1978. These funds would only be released for use if the Department of Finance made a determination of need.

When SB 363 was before the fiscal committees in the Legislature prior to enactment, the Health and Welfare Agency maintained that it anticipated "no net increase in administrative costs as a *direct* result of the proposed reorganization" (Statement of Support for SB 363). We maintained that the reorganization of the Health and Welfare Agency would result in increased support costs, and estimated that they would require $1,000,000 from the General Fund.

The likely increase in costs stems from the method by which programs in the Department of Health are charged for support services and the preparation of these costs paid for with federal funds. In the past, the department has allocated support services (overhead) according to the amount of funds budgeted for personnel costs in each program. Hence, the program with the largest personnel costs is charged the largest amount for support services, while the program with the smallest personnel costs is charged the least for support.

This is an arbitrary method for charging support costs, and does not necessarily reflect actual program needs for support services. A program with five times as much staff as another program does not always require five times as much support service such as budgeting, personnel, and the like, because of scale economics. Consequently, large programs often are charged more for support services than they use.

Because large programs also tend to have the largest federal match, this allocation method results in the federal government funding a larger percentage of support services than it would if the cost of these services were allocated more precisely.

When the reoganization divides the various Department of Health programs into five separate departments and one office, some of the smaller programs receiving a lower federal match will no longer be able to have part of the cost of their support services picked up by the large programs such as Medi-Cal and Disability Evaluation that also have a large federal share. The effect of this will be a savings to the federal government and increased costs to the General Fund.

The administration has provided no basis for the $3 million estimate of reorganization costs. In the absence of information justifying a larger amount, we see no reason to increase our estimate of these costs.

Health and Welfare Agency

DEPARTMENT OF DEVELOPMENTAL SERVICES

Items 256–258 from the General Fund — Budget p. 618

Requested 1978–79	$370,310,385
Estimated 1977–78	N/A
Total recommended reduction	$867,031

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
256	Departmental Support	General	$8,191,480
257	Hospital Support (Transfers and Reimbursements)	General	-0-
258	Local Assistance	General	362,118,905
			$370,310,385

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Regional Centers. Withhold recommendation on proposed funding pending receipt of information on new residential care rate system and revised caseload projections.	523
2. State Hospital Services. Withhold recommendation on the proposed funding for state hospital services for the developmentally disabled pending receipt and review of funds proposed to correct licensing deficiencies.	524
3. Autistic Program Transfer. Withhold recommendation pending receipt of information identifying shift of patients between programs.	525
4. Other changes proposed without supporting justification. Withhold recommendation pending receipt of information on special training, patient labor, and other programs.	526
5. *Developmental Disabilities Prevention Project. Reduce Item 258(k) by $820,031.* Recommend deletion of entire project. Further recommend report to policy and fiscal subcommittees and Joint Legislative Budget Committee by December 1, 1978 by Departments of Developmental Services and Health Services on all prevention activities.	526
6. Relation of State to Regional Centers. Recommend report to policy and fiscal subcommittees and the Joint Legislative Budget Committee by December 1, 1978, on the department's relationship to the regional center system.	527
7. Developmental Services and Workshops. Withhold recommendation on Item 258(m) for $399,194 for purchase of case management services from the Department of Rehabilitation pending the receipt of information on all workshop proposals.	528

8. Educational Services for the Developmentally Disabled. Recommend report to policy and fiscal subcommittees and the Joint Legislative Budget Committee by April 1, 1978, on plans for implementing new law affecting educational services for developmentally disabled clients. 529
9. Provider Rate Increases. Withhold recommendation on $5,863,439 General Fund proposed as provider rate increases pending resolution of related items. 530
10. Special Treatment and Intermediate Care Facilities for the Developmentally Disabled Program (ICF-DD). Withhold recommendation pending review of May revision of expenditures. 530
11. Residential Living Projects. Recommend report by Departments of Developmental Services and Rehabilitation on the financial status of 27 model residential living projects. 532
12. Protective Living Services. Withhold recommendation pending review of new caseload standards. 532
13. *Unallocated operating expenses. Reduce Item 256(b) by $47,000.* Recommend deletion because justification not provided for medical evaluations. 534

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977, (SB 363) reorganizes the Health and Welfare Agency effective July 1, 1978. The reorganization establishes the new Department of Developmental Services which will administer the Lanterman Developmental Disabilities Services Act and will be 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.

Under the provision of Chapter 1252, nine of the eleven state hospitals are placed within the new department. Five of these hospitals serve only development disabled persons while four serve both developmental disabled and mentally disabled persons.

The Department of Developmental Services major programs are:

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 care, treatment and life maintenance to developmentally disabled persons.
4. Resources planning and development program which has primary

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responsibility for planning, developing, designing, implementing, and monitoring/evaluating a statewide comprehensive network of community programs and services to meet the needs of persons with developmental disabilities.

5. Evaluation program which has primary responsibility for the implementation of the evaluation provisions under the Lanterman Disabilities Services Act.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes $370,310,385 from the General Fund for the support of the Department of Developmental Services and local assistance for the 1978–79 fiscal year. Item 256 proposes $8,191,480 for the support of the department and Item 258 proposes $362,118,905 for local assistance for the developmentally disabled. Funds for the state hospitals are included in Item 258 to be transferred to Item 257 as necessary. Item 257 is a "0" appropriation item which is proposed to authorize the State Controller to transfer funds from various other appropriation items to that item to make payments for services provided in the state hospitals.

Total proposed program expenditures including federal funds are $384,147,458 and are shown in Table 1. Because of the creation of a new department, we are unable to compare the departmental support amount to prior year expenditures.

Table 1
Department of Developmental Services and Local Assistance Expenditures by Source of Funding

	Fund	*Estimated 1977–78*	*Proposed 1978–79*	*Difference*	*Percent Change*
Regional Centers					
1. Regional Centers Operations	General	$97,985,090	$113,992,869	$16,007,779	16.3%
2. Special Treatment Program	General	1,696,000	1,696,000	–	0
3. Intermediate Care Facilities	General	1,100,000	1,100,000	–	0
4. Provider Rate Increases	General				
a) Cost of Living—Regional Centers and providers of service			4,095,679	4,095,679	–
b) Actual cost reimbursement for sheltered workshops			1,600,000	1,600,000	–
c) Cost of Living—Intermediate Care Facilities			167,760	167,760	–
5. Developmental Disabilities Prevention Program	General		820,031	820,031	–
6. Rehabilitation Demonstration Project	General		399,194	399,194	–
TOTAL GENERAL FUND		$100,781,090	$123,871,533	$23,090,443	22.9%

7. Federal SRS (Social Rehabilitation Services)	Federal	6,673,081	6,673,081	0	0
TOTAL ALL FUNDS, Regional Centers ..		$107,454,171	$130,544,614	$23,090,443	21.5%
Protective Living Services	General	5,651,169	6,343,969	692,800	12.3%
	Federal	3,474,515	3,286,396	–188,119	–5.4%
		$9,125,684	$9,630,365	$504,681	5.5%
Community Program Development					
1. Federal Public Law 94-103	Federal	1,713,769	905,711	–808,058	–47.2%
2. Program Development Fund	Other	600,000	600,000	0	0
		$2,313,769	$1,505,711	$–808,058	–34.9%
State Hospitals	General	216,362,187	231,903,403	15,541,216	7.2%
State Council Federal Public Law 94-103	Federal	838,518	574,004	–264,514	–26.5
Area Boards					
Federal Public Law 94-103	Federal	992,008	1,033,206	41,198	4.2%
State Operations					
Departmental Support	General	N/A	8,191,480	N/A	N/A
Special Projects	Federal	764,675	764,675	0	0
Total, State Operations			8,956,155		
TOTAL ALL FUNDS ..		$337,851,012	$384,147,458	$46,296,446 [a]	— [a]

[a] The net dollar and percentage increase for 1978–79 is overstated to the extent that comparable current year departmental support is unknown due to the reorganization of the Health and Welfare Agency.

REGIONAL CENTERS

We withhold recommendation on the proposed 1978–79 regional center budget pending review of information on the impact of the new residential care rate system and revised caseload projections and cost expenditure data.

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." In fulfilling these responsibilities, the Department of Health contracts with 21 nonprofit community agencies for the operation of the centers.

The proposed General Fund support for the regional centers in the 1978–79 fiscal year is $113,992,869, which is $16,007,779, or 16.3 percent, over the current year estimated expenditure. Total funding, all sources, as shown in Table 1 is proposed to be $130,544,614, which is an increase of $23,090,443, or 21.5 percent, over estimated current year expenditures.

Caseload Projections and Cost

The 1978–79 request is based on incomplete data regarding average cost per client for administrative overhead and purchase of service. We have been informed by the Department of Finance and the Department of Health that actual caseload and expenditure data for fiscal year 1976–77 and estimated data for 1977–78 were not available for analysis at the time the Governor's Budget was prepared. The Department of Health is in the process of obtaining and analyzing this information by auditing the regional centers. An evaluation of past and current year caseload and cost data should be completed by the time budget hearings are held.

New Residential Care Rate System

A new rate system for services purchased from residential care facilities by regional centers for developmentally disabled clients went into effect July 1, 1977, pursuant to Chapter 1369, Statutes of 1976. In addition Chapter 1141, Statutes of 1977, (AB 865) as passed by the Legislature augmented Item 253 of the Budget Act of 1977 by $15 million to implement the new rate system. The Governor reduced the amount to $5 million.

Last year the Legislature added supplemental language to the Budget Act of 1977 requesting the Department of Health to submit a preliminary report to the Legislature by December 1, 1977 (1) showing the distribution of clients in out-of-home community care facilities placements by the categories of minimum, moderate and intensive supervision; (2) identifying the rates facilities are receiving in fiscal year 1977–78 as a result of the new rate system; and (3) comparing the new rates to the rates facilities received under the system in effect until July 1, 1977.

The preliminary report was submitted to the Legislature in December 1977 and presents data on 28.6 percent of the approximately 10,000 clients in residential care facilities. A final report is to be submitted to the Legislature March 1, 1978. The final report is to contain data on all clients in residential care facilities.

The preliminary report found that:

1. Residential care clients are much less disabled than the developmentally disabled clients in state hospitals and nursing homes.

2. Most clients received a considerable increase in their rate under the new system. The average rate increase is over $100 per client per month. Less than 10 percent received a decrease in their rate.

3. Clients in different size facilities do not differ significantly in terms of assessed level of client functioning.

Since neither the full impact of the new residential care rates nor caseload and costs for 1976–77 and 1977–78 is known at this time, we withhold recommendation on the proposed regional center budget pending receipt of additional information.

STATE HOSPITAL SERVICES

We withhold recommendation on the proposed funding for state hospitals services for the developmentally disabled pending receipt and review of additional information related to the positions and funds proposed to correct licensing deficiencies in the current and budget years.

Under the provisions of Chapter 1252, Statutes of 1977, (SB 363) the eleven state hospitals have been placed under the new Departments of Mental Health and Developmental Services. Nine hospitals, Agnews, Camarillo, Fairview, Napa, Pacific, Patton, Porterville, Sonoma and Stockton, are in the Department of Developmental Services. The budget narrative indicates that the mental disabilities programs at Camarillo, Napa, Patton, and Stockton State Hospitals will receive hospital support activities on a contractual basis from the Department of Developmental Services and will receive program management from the Department of Mental Health.

The Governor's Budget estimates that state hospital expenditures for the developmentally disabled will be $216,362,187 in the current year and $231,903,403 in the budget year.

Current Year

The budget narrative states that each of the state hospitals was reviewed by the Licensing Division of the Department of Health during 1977–78 and was found to be out of compliance with federal Medicaid regulations and state licensing requirements. The narrative further states that the Department of Health requested an additional 2,820 positions and $23.6 million in fiscal year 1977–78 to correct licensing deficiencies in mental health and developmental services programs, and 234 positions and $4.1 million to meet special needs at Metropolitan State Hospital which serves the mentally disordered only. Approximately $16.5 million of the $23.6 million is for developmentally disabled (DD) state hospital services.

Budget Year

The DD state hospital budget for 1978–79 includes $24.6 million for continuing the positions administratively authorized in 1977–78, population adjustments, and further implementation of the 1973 Staffing Standards at the 94 percent level. The narrative indicates that, because budget issues were resolved late in the process the complete listing of positions was not detailed within the budget document but will be submitted to the fiscal subcommittees at the budget hearings. The budget narrative regarding the number of positions is vague at best.

The current and budget-year situation regarding licensing deficiencies is discussed in more detail under the state hospital component of Item 262, page 537, Local Mental Health.

Autistic Program Transfer

We withhold recommendation on the proposed transfer of the state hospital autistic program from the mental disabilities program to the developmental disabilities programs pending receipt of information identifying the actual shift of patients between programs in the current and budget years.

Autism is a condition characterized by an individual's marked withdrawal from reality and the lack of speech development. Recent changes in federal and state law now define autism as a developmental disability but in the past, autism was considered a mental disorder.

The Governor's Budget includes $2.3 million for transfer of the state hospital autistic program from the mental health to the developmental disabilities program.

During 1977–78, all patients in the autistic program were assessed by regional center staff. The assessments determined that services for 165 patients should be transferred to the DD program. Department staff indicate that the autistic individuals were transferred from the MD to the DD program in the current year.

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We requested information from the department identifying the transfer of the 165 patients between the two programs. Data provided us account for less than 100 of the patients. The department also advises that the population figures in the Governor's Budget reflect the transfer of the autistic individuals to the DD hospitals in the current year even though the funds for the autistic program are reflected in the MD budget in the current year.

Without specific information identifying details of the transfer of autistic patients, it is not possible to analyze current and projected increases or decreases in the MD and DD hospital population figures. Therefore we withhold recommendation.

Other Changes Proposed Without Supporting Justification

We withhold recommendation on the proposed changes related to a special training program, a paid patient labor program, expansion of the volunteer program and increased hospital support services pending receipt and review of additional information.

The Governor's Budget proposes a number of other changes related to the state hospitals.

1. $1,260,000 for a special training program to upgrade the technical skills of clinical and management staffs. The budget indicates that a specific program in relation to these objectives will be presented to legislative fiscal subcommittees, presumably during the budget hearings.
2. $183,375 and 3 positions for implementation of a paid patient labor program reimbursed by the Mental Health Department.
3. $116,064 and nine positions for expansion of the volunteer program at the state hospitals.
4. $128,662 and nine positions for increased hospital support services.

In each case, the department has not provided adequate information to permit an analysis of the request. Accordingly, we withhold on these proposed changes pending receipt and review of additional information.

Developmental Disabilities Prevention Program

We recommend the deletion of $820,031 from Item 258(k) for the entire Developmental Disabilities Prevention Project.

We further recommend that a joint report be submitted by the newly established Departments of Developmental Services and Health Services to the Joint Legislative Budget Committee and the appropriate policy and fiscal subcommittees delineating the roles and responsibilities of the two departments in the area of prevention activities by December 1, 1978.

The budget proposes a General Fund expenditure of $820,031 in the budget year for a project which would expand the identification of and service to infants who are at risk of becoming developmentally disabled. The funds are to expand current outreach and prevention programs in regional centers.

At present, one regional center has established a pilot prevention program funded from existing allocations. The department proposes to replicate this project in an additional four regional centers with the proposed new funds. However, the Department of Health has not completed its evaluation of the effectiveness of the existing pilot program. A preliminary report is scheduled to be completed by June, 1978. The purpose of such services is to provide nutrition information, genetic counseling, and information on birth defects to high risk pregnant women, infant stimulation for children born with high risk conditions or disabilities, and training for staff and professionals who come in contact with developmentally disabled individuals.

While we agree with the importance of such services, we are concerned about expanding these services through the pilot projects. Many programs within the state Department of Health, Maternal and Child Health Program, are already mandated by existing state law to provide prevention services to the entire population of the state including the types of service to be provided through the pilot projects. The Governor's Budget proposes $97.4 million to fund prevention programs in 1978–79 within the Maternal and Child Health Program. To expand like services through the regional center system would create a parallel system of service delivery causing an overlap and duplication of services provided.

Secondly, the department has not determined the basis for selecting which four centers would contract for the developmental disabilities prevention program. We believe there has been insufficient planning for any expansion of the program. Moreover, there has been no completed effectiveness evaluation of the existing pilot project.

Existing law mandates that prevention services be provided by numerous programs. Because of the incremental nature in which legislation has mandated that such services be provided, we are recommending a report to clarify and delineate the roles and responsibilities of programs providing prevention services.

The report should contain the following:

1) All funds expended on prevention services including types of services provided, clients served, and the program and/or programs responsible for providing the services;

2) A listing and explanation of all existing law mandating prevention activities;

3) Recommendations for consolidating prevention activities;

4) Recommendations for changes in existing law to clearly establish the roles and responsibilities of programs mandated to provide prevention services.

Relation of State to Regional Centers

We recommend the new Department of Developmental Services submit a report to the Joint Legislative Budget Committee and the appropriate policy and fiscal subcommittees on the department's role and responsibilities in relation to the regional center system by December 1, 1978.

In the past the relationship between the Department of Health and the regional center system has often been characterized by conflict and confusion. A major controversy has been over the lack of uniform management of the 21 centers and the degree of control the state can exert to require

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management changes. At present, the department is attempting to work primarily through the Association of Regional Center Agencies (ARCA) in managing the regional center system.

The new department should report on the progress made in resolving the controversy with the regional center system. In addition, the department should review the entire management system of the regional center program including the roles of the State Council on Developmental Disabilities and the area boards on developmental disabilities.

The report should include, but not be limited to, the following issues:

1. The relationship between the department and the Association of Regional Center Agencies including the role and function of ARCA.
2. A review and evaluation of management practices including the issues of standardization of accounting systems, expenditures for staff, services provided and purchased, and management reporting systems.
3. An evaluation of the effectiveness of the 21 regional centers in providing services to DD persons.
4. A delineation of the roles and responsibilities between the 13 area boards and the State Council on Developmental Disabilities.
5. A delineation of the roles and responsibilities between the state council and the department and between the area boards and the department, and any recommended legislation.

Developmental Services and Workshops

We withhold recommendation on Item 258(m) for $399,194 General Fund which would allow the Department of Developmental Services to purchase case management services from the Department of Rehabilitation as a demonstration project, pending receipt of information on workshop proposals.

The Governor's 1978–79 budget contains a number of proposals related to workshop services for persons who are developmentally disabled (DD). An expenditure of $399,194 General Fund in Item 258(m) is proposed for the Department of Developmental Services to purchase case management services from the Department of Rehabilitation as a demonstration project. The case management services would be provided for approximately 1,000 regional center clients participating in work activities programs. In addition, $1.6 million General Fund in Item 258(*l*), Developmental Services, is proposed as a provider rate increase to implement an actual cost reimbursement for sheltered workshop services purchased by regional centers.

The budget also proposes $2.5 million General Fund in Item 269 for the Department of Rehabilitation to fund community workshops and work activity centers for DD persons. Such funds could only be used for workshops serving DD persons who presently do not receive any other state or federal funds.

These requests raise a number of policy issues that must be addressed before new programs are initiated or existing policies altered. At present, we do not have sufficient information to analyze the request, and consequently we are unable to make a recommendation.

For a detailed discussion of Item 258(m) and related proposals pertaining to workshop services for the developmentally disabled, see the discussion in Item 269 of this Analysis.

Educational Services for the Developmentally Disabled

We recommend that the Departments of Health and Education submit a joint progress report to the Joint Legislative Budget Committee and the appropriate policy and fiscal subcommittees by April 1, 1978, on plans for implementing new laws affecting educational services to be provided for developmentally disabled clients.

Federal Public Law 94-142 (Education for All Handicapped Children Act of 1975) mandates that education services be provided to all handicapped children. The law significantly alters the nature and scope of educational services provided developmentally disabled (DD) clients.

The most important provisions of Public Law 94-142 include the following:

1. By September 1, 1978, the state must guarantee the right to a free appropriate education for all handicapped children between the ages of 3 and 18, and, consistent with state law, to all handicapped children between the ages of 3 and 21, by September 1, 1980. A related requirement is that state and local education agencies actively locate and identify all children who have handicaps.

2. A detailed set of procedural safeguards and due process requirements must be adhered to, including nondiscriminatory testing, parental rights for participation in the assessment and placement of their children, and provision of appeals procedures.

3. A written individualized education program (IEP) must be developed for each handicapped child. The IEP must be developed jointly by a qualified representative of the local educational agency, the child's teacher, parents or guardian, and the child whenever appropriate.

Chapter 1247, Statutes of 1977, (AB 1250) and Chapter 894, Statutes of 1977, (AB 65) provide for compliance on the part of state and local special education programs with the new federal requirements under Public Law 94-142. However, state law does not directly address how the Department of Health should alter the manner in which educational services are provided to DD clients.

To implement the legislation as it relates to developmentally disabled clients, the Department of Health and the Department of Education held a preliminary meeting in December 1977 to discuss the need to cooperate and coordinate implementation of the legislation. A task force of people from the Department of Health and Department of Education has been formed and is discussing the roles and responsibilities of the Departments of Health and Education in the identification of clients to be served, fiscal arrangements, management responsibilities, as well as in other areas. The primary purpose of the meetings is to establish a working agreement between the two departments.

We, therefore, recommend that the Departments of Health and Education present a joint progress report on the status of their work by April 1, 1978. The report should include information on (1) identifying clients

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

presently unserved and underserved; (2) funding arrangements between the two departments to provide educational services; (3) and the management responsibilities of the two departments.

For further information on this issue, see the discussion on Special Education in the Department of Education section of this analysis.

Provider Rate Increase

We withhold recommendation on $5,863,439 General Funds proposed as provider rate increases in Item 258(l) pending resolution of related Items 258(c) (regional centers), 258(i) (intermediate care facilities), 258(m) (rehabilitation project) and 269 (community workshops).

Provider rate increases of $5,863,439 are composed of the following:

(1) $4,095,679 for a 6 percent cost-of-living adjustment for regional center operations and providers of service;

(2) $167,760 for a cost-of-living adjustment for the intermediate care facility-developmental disabilities (ICF-DD) rate paid to intermediate care facilities for the developmentally disabled.

(3) $1.6 million to implement an actual cost reimbursement for sheltered workshop programs up to a maximum reimbursement rate of $200 per month per client not otherwise provided from other public sources.

At present, we are withholding recommendation on the total regional center budget pending submission of additional information on the new rates for residential care facilities and caseload and cost projections for the regional center operations. Thus, we withhold recommendation on a provider rate increase of $4,095,679 until a determination is made as to the needed level of funding for regional center operations.

SPECIAL TREATMENT AND ICF-DD PROGRAMS

We withhold recommendation on the funding proposed for the Special Treatment program and the Intermediate Care Facilities-Developmentally Disabled (ICF-DD) program pending submission and review of May revision of expenditures.

The budget proposes a General Fund expenditure in the budget year of $1,696,000 for the Special Treatment program and $1,100,000 for the Intermediate Care Facilities for the Developmentally Disabled program (ICF-DD). The budget also proposes a 6 percent cost increase of $167,760 for both programs which is contained in funds identified for provider rate increases.

The Special Treatment program, frequently called the "Patch" program, provides an additional $4.54 per patient day to skilled nursing facilities for providing a special rehabilitative program for the developmentally disabled. The $4.54 is paid in addition to approximately $25 per day that the facility receives for the basic care of the patient under the Medi-Cal program. The $4.54 per patient day cost is shared evenly between the General Fund and federal funds.

There are approximately 2,400 clients in facilities that are certified for the Special Treatment program. Last year the Legislature added $1.1 million General Fund to the DD item for the ICF-DD program. The

ICF-DD program is authorized under federal regulation and when fully implemented will supercede the existing special treatment programs for the DD patient. The $1.1 million was added to the budget on the assumption that 1,400 persons not currently in the special treatment program would be eligible for the new ICF-DD program.

There have been numerous problems related to the implementation of the ICF-DD program. As of January 1978, no regulations implementing the ICF-DD program had been adopted. The December Medi-Cal assumptions submitted to the Legislature indicated that the ICF-DD program was scheduled to be effective April 1, 1978. We now understand that the effective date will be postponed as a result of other problems relating to implementation of the regulations. We have also been informed by the Department of Health that a law change will be required in order to implement the ICF-DD program.

The Department of Finance has indicated that the funding for these two programs will be revised in the May Revision of revenues and expenditures.

Community Program Development

The budget proposes an expenditure of $1,505,711 for community program development and special projects in the budget year. The figure consists of (1) $905,711 in Item 258(e) in federal Public Law 94-103 funds available to develop programs as alternatives to institutionalization of the developmentally disabled and (2) $600,000 in Item 258(j) for the Program Development Fund. As shown in Table 1, there is a 47.2 percent decrease in federal Public Law 94-103 funds available to community program development as the result of a change in the formula used by the federal government in allocating funds to the state.

The Program Development Fund was established by Chapter 1369, Statutes of 1976. It mandated that all parental fees collected by the regional centers be deposited in the Program Development Fund, effective July 1, 1977. The purposes of the fund are "to provide resources needed to initiate new programs, consistent with the 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.

To date, no monies have been allocated from the Program Development Fund for the 1977–78 fiscal year. The department proposes appointing an advisory committee for the Program Development Fund to assist in making decisions on program allocation.

In addition, Chapter 1372, Statutes of 1976, directed the State Department of Health to conduct a study of the parental fee schedule and recommend changes to the Legislature by July 1, 1977. The department has not submitted the study to the Legislature as of mid-January. Regulations have been drafted by the department and are pending approval by the Department of Finance. Once approved, the proposed schedule will be presented in public hearings.

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, operat-

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ing expenses and equipment. The funds 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 annual budget hearings. Because funds have not been allocated and regulations on the parental fee scale have not been adopted, we are not able to comment on the utilization and effectiveness of the Program Development Fund.

Public Works Employment Act of 1976—Residential Living Projects

We recommend that the Departments of Developmental Services and Rehabilitation submit a report to the Joint Legislative Budget Committee and the appropriate policy and fiscal subcommittees by January 1, 1979 on the financial status of the 27 model residential living projects for the developmentally disabled funded by Public Works Employment Act Title II.

The Department of Health submitted a Section 28 application to the Department of Finance in December 1977 for Public Works Employment Act Title II funds to continue 27 model residential living projects for developmentally disabled (DD) clients. The projects were initially established as alternatives to deinstitutionalization and for reducing inappropriate institutional placement, and were funded from $3.5 million of state Mentally Retarded Private Institution (MRPI) funds available for fiscal year 1975–76. The $3.5 million continued to fund the projects through the 1976–77 fiscal year.

The Department of Finance approved $1,879,975 Title II funds for the projects of which one-half is for the period from January 1, to June 30, 1978 and the other half is for July 1, 1978 to December 31, 1978 when Title II funds will expire. Due to late submission of the Section 28 request and subsequent approval in late December, 1977, the Title II funds are not reflected in the Governor's Budget.

The departments of Health and Rehabilitation plan an extensive monitoring effort to insure that the residential living programs attempt to become self-supporting. The departments also plan to provide technical assistance to each project to insure quality programs. The Departments of Rehabilitation and Health believe that these procedures, in conjunction with the provision that projects must support 20 percent of the grant budget with their own funds, will results in an on-going funding base by December 1978.

We recommend that the Departments of Developmental Services and Rehabilitation submit a report on the financial status of these projects to the Legislature by January 1, 1979.

Protective Living Services

We withhold recommendation pending review of new caseload standards.

The Governor's Budget proposes a General Fund expenditure of $6,343,969 for Protective Living Services for the 1978–79 fiscal year, which is $692,800 or 12.3 percent more than is estimated to be spent during the current fiscal year. Total program expenditures, including federal funds, are proposed to be $9,630,635 which is $504,681, or 5.5 percent more than is estimated to be expended during the current year. The funds support the cost of staff of the Continuing Care Services Program (CCSP) which provides protective living services to the developmentally disabled.

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

Reduction of 46.5 Positions

During the current year, projected caseload growth for CCSP did not materialize to warrant the full current year staffing augmentation approved in the Budget Act of 1977. This resulted in a workload adjustment with a reduction of 46.5 positions in the current year and the budget year. As a result $500,000 was deducted from the budget base in the budget year for CCSP.

The Department of Health's Management Consultation Section is preparing a report to develop new caseload standards, that is, the appropriate caseload composition and size for each Psychiatric Social Worker (PSW). The study has attempted to collect information on the following:

1. A description of the client population.
2. A listing of the tasks and activities of PSWs.
3. A description of the PSW's work environment, e.g., resource availability, other agency relations.
4. Data detailing the amount of time each activity requires for service by a PSW.
5. The responsibilities in the community of the PSWs.

The department indicates that the current procedure to determine caseload standards is inadequate. The report was not available in time for review in the Analysis and we withhold recommendation.

State Council and Area Boards

The budget proposes the expenditure of $1,607,210 in 1978–79 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 $574,004 from Item 258(g) for the State Council on Developmental Disabilities and $1,033,206 million from Item 258(h) for the area boards as shown in Table 1.

There is a 12.2 percentage overall decrease in funds available to the State Council and the area boards as the result of a change in the formula used by the federal government in allocating Public Law 94-103 funds to the state.

Under the provisions of Chapter 1365, Statutes of 1976, 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 Disabili-

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ties State Plan established by Chapter 1366, Statutes of 1976.

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.

As mandated by Chapter 1366, the state council submitted its first state plan to the Legislature and the Department of Finance in November 1977. In addition, the state council is active in reviewing other plans and programs in the state affecting persons with developmental disabilities. For instance, the state council contracted with a consulting firm to evaluate the client assessment system (Operation Pinpoint) developed by the state Department of Health as required by Chapter 1371, Statutes of 1976. 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, 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.

Operating Expenses and Equipment

We recommend the deletion of $47,000 General Fund from Item 256(b) from the operating expenses and equipment item of the Department of Developmental Services.

The printed budget has a line item in operating expenses called medical evaluation for $47,000. We are unable to identify what medical evaluations are to be performed with the funds. A review of the department's work papers show that the amount was originally identified as unallocated operating expenses and supporting justification has not been provided.

Department of Developmental Services
LEGISLATIVE MANDATES

Item 259 from the General Fund — Budget p. 621

Requested 1978–79	$203,021
Estimated 1977–78	N/A
Total recommended reduction	$79,583

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Legislative Mandates. Reduce Item 259 by $79,583.* Recommend reduction to correct budgeting errors.	535

ANALYSIS AND RECOMMENDATIONS

We recommend a reduction of $79,583 from Item 259, General Fund, to correct budgeting errors.

The department's proposed budget for Legislative Mandates is $203,021. In preparing the budget the department made errors in calculating the amount needed. Its original calculations were based on three chaptered items: (1) Chapter 954, Statutes of 1973, at $126,011; (2) Chapter 694, Statutes of 1975, at $3,010; (3) Chapter 498, Statutes of 1977, at $74,000.

Chapter 954, Statutes of 1973, mandates that a radiation specialist be present in the same room when all but defined students in a school for radiological technologists administer diagnostic or therapeutic X-rays on a human being. Funds for this purpose are budgeted in the Department of Health Services item. Therefore, the $126,011 budgeted for this chapter should be deleted from this item.

Chapter 694, Statutes of 1975, grants developmentally disabled persons the right to have the court appoint a public defender or attorney to represent them during the appointment of a conservator or guardian in a guardianship hearing. Reimbursement is to be made for the cost of such legal services if the person is unable to pay the cost. The department originally budgeted $3,010 for these reimbursement costs, a 6 percent increase over the $2,840 carry-over balance of 1977–78. The department should have budgeted the amount required on a base of $46,598 with a 6 percent cost of living increase or $49,438. The funds to support this legislative mandate should be increased by $46,428.

Chapter 498, Statutes of 1977, requires coroners to perform inquiries and determine the circumstances, manner and cause of certain specified types of human deaths whenever a patient dies in a hospital operated by the Department of Health or a successor agency. The department correctly budgeted this amount at $74,000. The legislation appropriated $37,000 for costs incurred from January 1, 1978 to June 30, 1978. The budgeted cost of $74,000 represents a full year projected funding.

Health and Welfare Agency
DEPARTMENT OF MENTAL HEALTH

Items 260–262 from the General Fund — Budget p. 638

Requested 1978–79	$477,182,534
Estimated 1977–78	N/A
Total recommended reduction	$10,000,000

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
260	Department Operation	General	$6,945,281
261	Mentally Disabled-Judicially Committed	General	$36,101,582
262	Community Mental Health	General	$434,135,671
	Total		$477,182,534

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. State Hospital Services to Mentally Disabled. Withhold recommendation on proposed funding pending review of additional information related to licensing deficiencies.	537
2. Special Training, Paid Patient Labor, and Applied Research Programs at State Hospitals. Withhold recommendation pending receipt and review of additional information.	544
3. Local Mental Health. Withhold recommendation on funds proposed for existing local mental health programs and funds, expansion of programs and proposed new programs pending receipt of additional information.	544
4. *Facilities Development. Recommend Item 262 be reduced by $10 million.* Recommend deletion of facilities development fund in this item and funding requirements be included in enabling legislation.	544
5. State Hospital Services for Judicially Committed. Withhold recommendation on proposed funding pending review of additional information related to licensing deficiencies.	548
6. Community Programs Current Year Funding (Chapter 1274, Statutes of 1975). Recommend Department of Health submit a status report by March 15, 1978 identifying current year source of funding.	550
7. Community Programs Budget Year Funding (Chapter 1274, Statutes of 1975). Recommend Department of Health submit a revised community program budget for 1978–79 by March 15, 1978.	551
8. Corrections Transfers. Recommend Department of Health submit information by March 15, 1978 to Joint Legislative Budget Committee explaining increase in number of corrections transfers.	551

9. Department Support. Withhold recommendation pending receipt of proposed expanded local mental health program. 551

GENERAL PROGRAM STATEMENT

California's basic mental health legislation is embodied in two statutes known as the Lanterman-Petris-Short and the Short-Doyle Acts. The Lanterman-Petris-Short (LPS) Act, passed in 1967, specifies the legal requirements related to review and commitment procedures for mentally disordered persons who require involuntary treatment. The Short-Doyle Act, enacted in 1957, provides for the delivery of mental health services through a state-county partnership.

As a result of Chapter 1252, Statutes of 1977, (SB 363) effective July 1, 1978, the new Department of Mental Health will be responsible for carrying out the functions and activities assigned to the existing Department of Health under the LPS and Short-Doyle Acts. Under the provisions of Chapter 1252, two state hospitals—Metropolitan and Atascadero—that exclusively serve the mentally disabled (MD) will be under the jurisdiction of the new Department of Mental Health. The remaining nine state hospitals will be under the jurisdiction of the Department of Developmental Services. Budget narrative states that the MD programs at Camarillo, Napa, Patton and Stockton State Hospitals will receive hospital support services from the Department of Developmental Services on a contractual basis and direct program management from the Department of Mental Health.

ANALYSIS AND RECOMMENDATIONS

STATE HOSPITAL SERVICES (Item 262)

We withhold recommendation on the proposed funding for state hospital services for the mentally disabled pending receipt and review of additional information related to positions and funds proposed to correct licensing deficiencies in the current and budget years.

The Governor's Budget estimates that state hospital expenditures for the mentally disabled will be $112,550,267 in the current year and $120,803,919 in the budget year.

Current Year

The Governor's Budget assumes that the current-year funding of $112,550,267 will consist of $108,474,021 from the General Fund and $4,076,246 in Title II funds for Metropolitan State Hospital. The full amount represents a $8,933,767 or 8.6 percent, increase above the funding level approved in the Budget Act of 1977. The General Fund's share represents a $4,857,521, or 4.7 percent, increase above the Budget Act level.

According to the administration, the 1977–78 increase is based on two factors:

1. During calendar year 1977, each of the state hospitals was reviewed by the licensing division of the Department of Health and found to be out of compliance with federal Medicaid and state licensing requirements.
2. Staff turnovers at Metropolitan State Hospital during October 1977 led to three hospital wards being closed.

DEPARTMENT OF MENTAL HEALTH—Continued

The administration's actions in response to these two developments are summarized in the following paragraphs.

On November 3, 1977, the Director of Finance notified the Legislature that he was authorizing the Department of Health to spend at a rate that would require a deficiency appropriation of $7,549,193. The authorization, granted under Section 28.5 of the Budget Act, was intended to permit the department to begin filling 825 new positions at the state hospitals serving the mentally disabled and developmentally disabled. The letter indicated that the department would seek the required deficiency appropriation in January 1978. (The letter further stated that the Department of Health was continuing to review plans of correction at each state hospital. If additional funds should be required beyond the funds authorized by the deficiency, the letter stated that a subsequent amendment would be made to the Legislature.)

Another Section 28.5 letter was submitted to the Legislature by the Director of Finance on November 18, 1977. This letter informed the Members that authorization had been given for the Department of Finance to increase the expenditure rate further, so that an additional 234 positions could be filled and operating expenses and equipment expanded at Metropolitan State Hospital. This authorization would require a deficiency appropriation of $4,076,246.

On November 30, the Director of Finance informed the Joint Legislative Budget Committee that he was planning to use $4 million in federal Title II funds, rather than the authority provided by Section 28.5, to increase staff and related expenses at Metropolitan. The notification, which was required by Section 28 of the Budget Act, requested a waiver of the 30-day waiting period that normally applies. According to the Director, the need for the additional resources resulted from factors not related to licensing deficiencies or the loss of Medi-Cal funds.

By letter of December 14, 1977, the acting Chairman of the Joint Legislative Budget Committee denied the request for a waiver of the 30-day waiting period. The request was denied for the following reasons:

- Establishment of the 234 positions at Metropolitan appeared to represent a substantial departure from the policy that all 11 hospitals be staffed according to the same defined standards.
- The Department of Health was not able to identify how the proposed staffing increase would relate to the 1973 Staffing Standards approved by the Legislature.
- It would be difficult for the Legislature to meaningfully review the proposal to expend $4 million in Title II funds at Metropolitan without being able to simultaneously review the 825 positions authorized in the November 3 Section 28.5 letter related to licensing deficiencies.

In the letter, the Chairman informed the Director of Finance that a staff increase of this magnitude should be considered by the Legislature, and should not be implemented through a Section 28 letter.

Subsequently, the administration resubmitted its request for a waiver of the 30-day waiting period in a letter dated January 12, 1978. This letter stated that $975,049 which was included in initial request had been deleted from the revised request because the activities to be supported were inappropriate for funding under Title II. As a result a waiver was requested for use of only $3,101,197 in Title II funds to fund 222 positions at Metropolitan State Hospital. Finance indicated that the $975,049 would be included in the deficiency appropriation. At the time this analysis was prepared, no action had been taken on the revised Section 28 request.

The January 12 letter also indicated that completed surveys of the state hospitals indicated a need for an additional 1,824 positions (on top of the 825 positions authorized under section 28.5 and the 222 positions requested for Metropolitan under section 28) to meet identified licensing deficiencies. The cost of these positions was estimated to be $14,970,446. In addition 183 positions are proposed for a grand total of 3054. The administration indicated that the 1,824 positions would not be authorized until a deficiency appropriation is passed.

The Governor's Budget narrative states on page 640 that the Department of Health requests an additional 2,820 positions and $23.6 million (including the 1,824 positions and $14,970,446 mentioned above) in fiscal year 1977–78 to correct licensing deficiencies in both mental health and developmental services programs, as well as 234 positions and $4.1 million to meet special needs at Metropolitan State Hospital. Approximately $4.5 million of the $23.6 million is for state hospital services for the mentally disordered.

Budget Year

The 1978–79 state hospital budget for the mentally disabled includes an increase of $14.7 million for continuation of the positions administratively authorized in 1977–78, population adjustments, and staff increases necessary to bring staffing up to 94 percent of the 1973 staffing standards. The narrative states that as a consequence of the late resolution and logistical problems in submitting the budget, the complete listing of positions was not presented in the budget but will be submitted to the Legislature prior to legislative hearings. The 1978–79 budget also includes $5.3 million to continue the positions authorized for Metropolitan.

Licensing Issue

The issue of state hospital compliance with federal and state requirements for licensure and federal reimbursement is complex.

Prior to the passage of Chapter 1202, Statutes of 1973, (SB 413), state hospitals did not have to be *licensed* in order to receive Medi-Cal funds. Instead, the state hospitals merely had to be *certified*. Chapter 1202 required that the state hospitals be licensed and meet specified standards that were to be applied to all hospitals.

All eleven state hospitals were licensed by the Department of Health in 1975 and 1976. The department has stated that the licensing was done in a cursory and perfunctory manner with a survey team of one or two people. In November 1976, however, the Licensing and Certification Division began a comprehensive survey of all the state hospitals.

In July 1977, a summary report was prepared from the hospital surveys which documented, for the first time, the full extent of the state hospital system's deficiencies. Material supplied to us by the Department of Health

DEPARTMENT OF MENTAL HEALTH—Continued

states that some individuals within the administration believed the state hospitals could correct the deficiencies and maintain their certification status without significant additional resources. However, on June 30, 1977, the skilled nursing portions of Agnews, Fairview, Napa and Pacific State Hospitals were decertified. The department states that the decertifications were based upon conditions present at the time of the comprehensive survey and uncorrected deficiencies in prior surveys.

Difficulties in Analyzing the Request

Analysis of the administration's request for 3,054 new positions is complicated by a number of factors, including the following:

Number of Position Classifications. The request is composed of 46 different classifications ranging from physicians to beauty operators. Table 1 shows the total number of proposed positions which the department classifies as either clinical or support.

Table 1

SUMMARY OF POSITIONS PROPOSED FOR STATE HOSPITALS

Clinical		*Support*	
Physician	171.3	Medical records officer	11
Psychologist	22.5	Clerk typist	246.4
Social worker	60.4	Food administrator	42
Rehabilitation therapist	24.3	Food services supervisor	25
Teaching assistant	16	Food service assistant	640.4
Vocational counselor	1	Food production worker	9
Vocational instructor	16	Patient benefits officer	1
Audiologist	2	Accounting officer	1
Speech pathologist	28	Personnel assistant	2
Dentist	1	Peace officer	5
Dental hygienist	2	Telephone operator	1
Pharmacist	30	Beauty operator	4
Pharmacy assistant	2	Wheelchair technician	3
Coordinator of nursing services	17.6	Maintenance worker	31
Health services, supervisor	361.4	Truck driver	23.2
Public health nurse	14	Laundry worker	21
Psychiatric nurse education director	14	Janitor	790.8
Nurse instructor	11	Pest control technician	1
Nurse anesthetist	2.5		
Nursing officer of the day	6.4		
Nursing staff (RN, PT, LVN)	360.6		
Hospital worker	7.3		
Lab technologist	16		
Xray technologist	1		
Program director	2		
Program assistant	3		
Nursing coordinator	2		
Staff services analyst	1		
	1,196.3		1,857.8
TOTAL			3,054.1

This listing was not made available to the Legislature until December 30, 1977.

Absence of Specific Standards. The standards required to be met by federal and state licensing authorities are generally broad.

For example, the skilled nursing portions of the state hospital were cited for:

1. having an insufficient number of nurses employed to provide required nursing services to meet the total needs of patients and
2. not employing sufficient housekeeping personnel.

Regarding nursing services, Section 72323 (a) of Title 22 of the California Administrative Code states that nursing service personnel shall be employed in the number and with the qualifications determined by the department to provide the necessary services for those patients admitted for care. The department may require a facility to provide additional staff whenever it determines through a written evaluation of patients and patient care in the facility that such additional staff are needed to provide adequate nursing care and treatment or to provide for the safety of the patient.

Regarding housekeeping, Section 72673 (d) of Title 22 states that there shall be sufficient housekeeping personnel to maintain the interior of the facility in a safe, clean, orderly and attractive manner free from offensive odors.

In neither instance is a specific numerical standard identified in the regulation. In addition we requested an identification of the standards that were used by licensing representatives to assess Metropolitan State Hospital in order to analyze the January 12, 1978 Section 28 letter. The Department responded that the same standards were used to assess Metropolitan and all other state hospitals. The only variation at each hospital was based upon the type of license it had and the regulation relating to each license category. The department's response states that . . . "these standards, like most other licensing and certification standards, generally are worded in phrases such as "adequate", "sufficient", or "reasonable", with the exception of plant and environmental regulations, which tend to be more numerically specific."

Application of these broad standards to the state hospitals requires numerous subjective judgments to be made by the staff of the Licensing and Certification Division. These judgments may or may not conform with legislative intent.

Conventional Methods of Budgeting Not Used. The process used by the administration in determining the number and type of positions needed at each hospital was unique, and did not utilize conventional methods of budgeting and planning. Management from the Department of Health went to each hospital with the licensing personnel—also from the Department of Health—and in effect "negotiated" the number of positions that would be required for licensing. We have repeatedly asked for the basis on which the number of positions in each classification at each hospital was determined. In many instances, the department has not been able to provide the data, and as a result we have come to the conclusion that there is none. For example, we have asked what criteria, standards or outcome measures were used to determine that 171.3 physicians were needed rather than half as many or twice as many. In this case, apparently there

DEPARTMENT OF MENTAL HEALTH—Continued

was no standard used. (Some commonly accepted standards were used in other classifications such as pharmacists, speech pathologist and laboratory technologist.)

Many of the requested positions, particularly the support positions, are based on the uniqueness of individual hospitals. For instance, the problems of food service, maintenance, and janitorial service differ from facility to facility. The largest number of positions proposed for a single classification is the 790 requested janitors. There appears to be a reasonable basis for the number of janitors requested. At least a standard was used which has been applied in other facilities.

In order to test the validity of the process used in determining the significant number of positions requested, we visited two hospitals and met with department, hospital and licensing staff and reviewed the proposal for those specific hospitals.

Information on Staffing Request Not Complete.

We have had difficulty in obtaining sufficient information necessary to analyze the request for staffing. In most instances, the problem is that the department has not had basic justification and supporting documents. Instead, upon our request, such justification has been prepared and supplied. We have not received answers to a series of questions put to the Departments of Finance and Health that are necessary for an analysis of the proposed staffing increases. For example, two important questions related to the Metropolitan Section 28 request are: 1) How would the proposed increase for Metropolitan compare to the other five hospitals serving the mentally disabled and 2) What would the revised 1973 staffing standards percent levels be at the hospitals serving the mentally disordered based on the proposed staff increase. At the time this analysis was being prepared, the two departments were still in the process of preparing the requested information.

Other Changes Not Explained

The Governor's Budget, page 639, states that further state hospital renovation is proposed to correct identified fire and life safety and environmental deficiencies. A reappropriation of $2.7 million is proposed in Control Section 10.60 and additional funding of $1.1 million are being proposed in Item 469. The latter funding is proposed to renovate additional buildings at Metropolitan State Hospital. The narrative further states that "This is required due to a revision in the planned population at this facility." On page 619 of the Governor's Budget, reference is made to the request for $4.9 million in Item 468 for additional capital outlay funding to renovate additional buildings at Camarillo State Hospital. The narrative states that this is required due to a revision in the planned mentally disabled population at Camarillo.

The Department of Finance advises us that the additional funds would provide capital outlay improvements to approximately 1,200 mentally disabled beds at the two facilities. The department also advises us that the population projections and funding for the hospitals serving the mentally disabled have been adjusted to reflect the Administration's decision to maintain higher population levels at Camarillo and Metropolitan than what the population would have been without such adjustments.

We have not been able to obtain:

1. rationale and justification for the planned population revisions referred to in the Governor's Budget.

2. an explanation of how the planned population revisions for Camarillo and Metropolitan relate to the "Item 390 plan" which the administration submitted to the Legislature in May 1977. The Item 390 plan is the Administration's plan, prepared pursuant to legislative mandate, for an orderly reduction of the state hospital population to approximately 8,000 developmentally disabled and 3,000 mentally disabled persons by 1985.

3. An explanation of how the $69 million proposed to expand local mental health services in Item 262 would impact on the state hospital mentally disabled population.

Status of Our Analysis

We have concluded that a majority of the positions will be needed to meet the licensing requirements and to regain federal Medicaid certification. However, we are not yet able to present a specific recommendation on all the positions, particularly many of the treatment positions, until we have received more information on the basis for the request and its relationship to other standards and mental health programs. We will present a supplemental analysis on the proposed positions in time for the initial fiscal committee hearing on the deficiency appropriation for the current year staffing.

It is clear, however, that the department would have difficulty filling many of the requested positions. Given the interrelationships between clinical and support positions, any increase must be tightly controlled. For example, a total of 246 clerk typist positions is proposed as support staff for such professional positions as physicians, psychologists, social workers, etc. If the hospitals are going to be able to recruit all the proposed professional positions, which is doubtful, then the clerical positions will be necessary. However, some control must be exercised by the Departments of Finance and Health that the much easier to recruit support staff are not hired until the professional staff are actually on the job and not just authorized.

Concern Over the Process

We have serious concerns over the administration's handling of this matter. These concerns touch on both the process used to establish positions as well as the standards on which the requests are based.

During the budget hearings on the 1977–78 Budget Bill, the administration gave no indication to the Legislature or its staff that the state was confronted with a licensing or decertification problem. In August when the Legislature returned from the summer recess it was not informed of a problem even though the deficiencies had been documented in July, the initial federal decertification of four hospitals had occurred in June and the Licensing Division of the department had submitted a very severe letter of hospital deficiencies to departmental management on July 21, 1977.

It wasn't until after the Legislature recessed in September that notification was given that an "emergency" existed and that the administration

DEPARTMENT OF MENTAL HEALTH—Continued

was acting to establish new positions without express approval by the Legislature. Furthermore, the procedure followed in establishing the "need" for 3,054 positions is not only unique but dangerous as well. We are concerned that in the name of "licensing requirements" the Department of Health is able to establish standards that state hospitals must meet without the sort of legislative approval embodied in the Program Review Unit, Number 72 staffing standards adopted by the Legislature in Chapter 72, Statutes of 1977 (SB 18). These standards are commonly referred to as the 1973 staffing standards. This procedure amounts to a blank check in the hands of the executive branch to fund whatever some administrators feel is desirable rather than necessary.

Information Needed on Training, Patient Labor and Research

We withhold recommendation on the proposed changes related to a special training program, a paid patient labor program, and an applied research program pending receipt and review of additional information.

The Governor's Budget proposes a number of other changes related to state hospitals. They include:

1. $740,000 for a special training program to upgrade the technical skills of clinical and management staff. The budget indicates that a specific program to achieve this objective will be presented to the legislative budget committees, presumably before hearings on the Governor's budget commence.
2. $308,772 and five positions for implementation of a paid patient labor program.
3. $250,000 for an applied research program.

We have not received adequate information to analyze these requests therefore we withhold recommendation on these proposed changes pending receipt and review of additional information.

COMMUNITY MENTAL HEALTH (Item 262)

We withhold recommendation on the funds proposed for existing mental health programs, expansion of existing programs, and proposed new mental health programs pending receipt and review of additional information.

We recommend (1) deletion of the proposed $10 million facilities development fund and (2) that funding requirements be included in the enabling legislation that will be required to permit the expenditures of state funds for local program capital improvements.

The budget proposes a 1978–79 expenditure of $434,135,671 for support of community mental health services. This is $92,738,864, or 27.2 percent, more than the budget estimates will be expended during the current year. The funds in this item support local mental health services and the state hospital services purchased by the local programs. Table 2 compares the current year funding with the amount proposed in the budget year. Current year funds of $4.1 million in federal Public Works Employment Act, Title II money for Metropolitan State Hospital is not included in table 2. Table 2 just shows General Fund support.

The budget proposes $69,000,000 for expansion of existing programs, new undefined programs and local facilities development.

Table 2
General Fund Support—Community Mental Health Program

	1977–78 Estimated	*1978–79 Proposed*	*Percent increase*
State hospital services	$108,474,021	$120,803,919	
Local mental health agencies	232,922,786	230,754,230	
Six percent cost of living increase	—	13,577,522	
Expansion of existing programs	—	29,000,000	
New mental health programs	—	30,000,000	
Facilities development	—	10,000,000	
	$341,396,807	$434,135,671	27.2%

Amount of Base Program

The Governor's Budget proposes an expenditure of $230,754,230 for existing county Short-Doyle programs. In addition, the budget states that the $42,577,522 identified for expansion of existing services includes a 6 percent cost-of-living increase of $13,577,522. The proposed cost-of-living increase would maintain the existing program in 1978–79, and would not expand existing services. Therefore, the proposed support for the existing level of local mental health services in 1978–79 is $244,331,752.

Expanded Services

The budget also proposes an expenditure of $29 million for expansion of existing mental health services and $30 million for development of new county mental health programs and a wide range of generic services.

The budget states that a portion of the $29 million will be made available to those counties which have provided more than the required 10 percent of program costs. The counties will be required to maintain their program effort at the 1977–78 fiscal year level.

The budget proposes that $20 million of the $29 million be allocated "for expansion and strengthening of the existing network of services to fill the special needs of the counties." These funds are also to be used to provide the third and final phase of equity funding—the allocation of funds to counties using the mental health needs index formula which was jointly developed by the Conference of Local Mental Health Directors and the Department of Health.

New Funding

The budget proposes to make $30 million available to counties for the development of new mental health programs and a range of generic services. On page 639, line 59 the budget states, "In keeping with legislative intent and interest, services to children and youth will be an area of emphasis, as will patient rights advocacy and programs targeted to mentally disordered offenders and mentally disordered jail inmates. Other generic services will include coordinated case management, supportive independent living, activity centers, sheltered workshops, gero-psychiatric centers and patient transportation. Funding for generic services will be allocated to fill specific needs on a county-by-county basis."

DEPARTMENT OF MENTAL HEALTH—Continued

The Department of Health has no plan for the expenditure of funds for either the expanded or new programs. Budget narrative states that additional details regarding the proposed expenditures will be submitted to the fiscal committees prior to the start of legislative budget hearings. As of early February, the department still did not have a plan and we cannot recommend funds for the expanded and new programs until we see the plan. In addition, we cannot make a recommendation on the base program funding level until the Legislature is presented with proposals for the $59 million in expanded and new programs.

Facilities Development

The budget proposes the establishment of a $10 million facilities development fund to be made available to counties as grants or loans for purchase or construction of necessary facilities in areas where adequate facilities do not exist. Existing law precludes expenditures for initial capital improvements. Budget narrative states that the administration will support legislation enabling such facilities to be funded.

We believe that funds should not be appropriated in the budget act absent authorizing legislation. Therefore, we recommend that the $10 million be deleted from Item 262. Funds for facilities development should be reviewed by the appropriate policy committees in addition to the fiscal committees.

JUDICIALLY COMMITTED (ITEM 261)

Under existing law California operates six hospitals for mentally disordered patients. These patients are grouped into two basic categories (1) persons admitted and treated under the provisions of the Lanterman-Petris-Short and Short-Doyle Acts and (2) persons who are committed by the courts under various provisions of the Penal Code (PC) and the Welfare and Institutions Code (W&IC). Services for persons who are judicially committed (JC) are available at all six hospitals, although Atascadero and Patton State Hospitals serve the majority of such persons. The three primary categories of court commitments are (1) mentally disordered sex offenders (MDSO) (Section 6316 and 6326, W&IC), (2) individuals incompetent to stand trial (Section 1370, PC), and (3) individuals found not guilty of criminal conduct by reason of insanity (Section 1026, PC).

In addition, the hospitals receive inmates from the Department of Corrections whose treatment could be expedited at a state hospital, and Youth Authority wards who the Department of Youth Authority determines could benefit by treatment at a state hospital (Section 1756, W&IC). The Departments of the Youth Authority and Corrections do not have the sole authority to transfer wards or inmates to the state hospital system. The law gives the Department of Health authority to reject anyone whom it believes it could not handle or treat.

Recent Law Changes

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 required the cost of local treatment to be a 100 percent General Fund cost.

Chapter 164, Statutes of 1977, (SB 1178) effective July 1, 1977, required the court to determine the maximum term of commitment for specified felonies. Under prior law, the court had to set an indeterminate term for an MDSO up to a maximum term established by statute. Chapter 164 also established a procedure to detain an MDSO beyond his maximum commitment term. A person who suffers from a mental disorder and, as a result of such mental disorder, is predisposed to the commission of sexual offenses to such a degree that he presents a serious threat of substantial harm to the health and safety of others and meets other specified criteria, may be recommitted for additional one-year periods.

Population Increase Continues

The Governor's Budget projects continuation of the upward trend in the JC population. Table 3 shows the estimated and projected judicially committed year-end populations by legal class for the 1976–77, 1977–78 and 1978-79 fiscal years.

Table 3
State Hospitals for the Judicially Committed Year-End Population by Legal Class 1976–77, 1977–78 and 1978–79

	Estimated 6/29/77	*Projected 6/28/78*	*Projected 6/27/79*
Sex offenders (Section 6316, W&IC)	726	726	718
Not guilty by reason of Insanity (Section 1026, PC)	562	613	646
Incompetent to stand trial (Section 1370, PC)	270	281	285
Department of Corrections transfers (Section 2684, PC)	136	180	217
Youth Authority transfers (Section 1756, PC)	54	56	58
Other	93	85	97
Total	1,841	1,941	2,021

Progress Reports Overdue on Legislation Impact

Chapter 1274, Statutes of 1975, required 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 law initially required the report to be submitted to the Legislature by January 1, 1978. Chapter 691, Statutes of 1977, (AB 1595) amended the reporting requirements. The category efficacy of treatment, including the effect of treatment on subsequent criminal behavior, was added. The new law also requires that two progress reports shall be submitted to the

DEPARTMENT OF MENTAL HEALTH—Continued

Legislature on January 15, 1978 and January 1, 1979, and the final report of findings shall be submitted July 1, 1979. As of early February the January 15, 1978, progress report had not been submitted.

Chapter 164 permits MDSOs to be recommitted beyond the maximum commitment term for one-year periods if they meet specified criteria. The recommitment provisions of the bill are effective only until January 1, 1979. Chapter 164 also requires the Department of Health to report to the Legislature by January 1, 1978, and again by June 30, 1978, on the number of recommitment petitions filed, sustained and not sustained and a summary of the evidence introduced at the trials for extended commitment. As of early February, the January 1, 1978, report had not been submitted to the Legislature.

Proposed 1978–79 Funding

The budget proposes a General Fund appropriation of $36,101,582 for state hospitals and local programs for mentally disordered persons who are judicially committed. This is an increase of $3,512,452, or 10.8 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. Table 4 shows the actual, estimated and proposed support for the judicially committed for 1976–77, 1977–78 and 1978–79.

Table 4
Judicially Committed Program
State Support
1976–77, 1977–78 and 1978–79

	Estimated 1976–77	*Estimated 1977–78*	*Proposed 1978–79*
State operated services	$27,837,276	$32,238,195	$35,536,251
Community programs	253,419	250,935	459,331
Patient tracking	3,460	100,000	106,000
Estimated savings	−2,890,047	—	—
Total expenditures	$25,204,108	$32,589,130	$36,101,582

State Operated Services

We withhold recommendation on the proposed funding for state hospital services for the judicially committed pending receipt and review of additional information related to the positions and funds proposed to correct licensing deficiencies in the current and budget years.

The Governor's Budget estimates that state hospital expenditures for the judicially committed will be $32,238,195 in the current year and $35,536,251 in the budget year.

Current Year

The current and budget year situation regarding licensing deficiencies and state hospitals staffing increases is discussed in more detail under the state hospital component of Item 262, Local Mental Health.

Community Programs—Parolee Units

We recommend approval. The budget proposes a General Fund expenditure of $459,331 for community programs in the budget year. This is an increase of $208,396 over the current year estimated expenditure of $250,935. These funds support staff who provide protective social services to judicially committed persons who are eligible for parole from a state hospital. Services provided include assisting the person to obtain employment or public assistance, housing and other necessary services that will facilitate the person making a satisfactory adjustment to the community.

The $250,935 current year expenditure supports a parolee unit in southern California consisting of nine positions. The budget proposes establishing a northern California unit consisting of seven positions at a cost of $200,730.

COMMUNITY PROGRAMS—CHAPTER 1274, STATUTES OF 1975 (AB 1229)

Background Program Implementation

In the 1977–78 Analysis, we indicated that implementation of Chapter 1274, Statutes of 1975 (AB 1229) was slow for a number of reasons. Chapter 1274 permits MDSOs and persons not guilty by reason of insanity to be treated in the community. A key reason was that a number of counties declined to implement the program without start-up planning funds from the state. The law stipulates that the cost of local treatment is a 100 percent General Fund cost. No appropriation was included in Chapter 1274 because it was expected that local treatment cost would be offset by savings in the state hospital programs.

The state has required that a plan be submitted and approved before funds for local treatment programs can be made available. The first county plan was approved November 1, 1976. County plans have been approved subject to a number of conditions:

1. The county is expected to reduce its 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 costs of services rendered.
3. The state will periodically review local services for cost effectiveness and the impact of state hospital utilization.

In the 1976–77 fiscal year, 14 county plans totaling approximately $2.4 million were approved. Actual expenditure data for Chapter 1274 programs are not yet available as all counties have not submitted their annual cost reports for the 1976–77 fiscal year. According to the department, only two counties submitted claims totaling $66,000 for Chapter 1274 programs during the past year. The department indicates that the reasons for the low claims appear to be that the counties:

1. May have absorbed the cost of Chapter 1274 patients out of their regular 90/10 Short-Doyle funding; or
2. Did not claim reimbursement during the year but will identify and be reimbursed for their actual expenditures based on the 1976–77 year-end cost report.

In the current year, 14 county plans for Chapter 1274 programs have been approved as of 1/17/78. Table 5 shows the approved county plans as of January 17, 1978.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 5
Approved Chapter 1274 County Plans for Local Treatment of Judicially Committed Patients
(As of 1/17/78)
1977–78 Fiscal Year

Alameda	$225,489
Fresno	106,350
Los Angeles	1,185,820
Orange	90,200
Riverside	162,500
Sacramento	139,500
San Bernardino	69,468
San Luis Obispo	47,100
San Mateo	48,300
Santa Barbara	32,850
Santa Clara	120,708
Solano	46,800
Ventura	63,900
Yolo	22,080
	$2,361,065

Current Year Funding Problems

We recommend that the Department of Health submit a status report on community programs (Chapter 1274, Statutes of 1975) which identifies how such programs will be funded in 1977–78 to the Joint Legislative Budget Committee, the fiscal subcommittees and the appropriate policy committees by March 15, 1978.

There is a problem with funding the community treatment programs in the current year. The Governor's Budget, page 640, shows a June 29, 1977, estimated population of 1,841 persons and a June 28, 1978 projected population of 1,941 persons. Based on these projections, it appears that counties with approved plans will not be able to demonstrate a reduction in their county's day utilization sufficient to fund their local programs.

In response to this problem, the Department of Health has tentatively earmarked for Chapter 1274 programs, approximately $2.4 million in Short-Doyle funds appropriated in Item 245 of the Budget Act of 1977 for local mental health programs. Specifically, the department plans to use $2.4 million in General Funds appropriated as the state's 90 percent General Fund share of the cost of local mental health programs in Item 245 to pay for the community programs in Item 244, Judicially Committed, that are by law, to be a 100 percent General Fund cost.

The diversion of Item 245 Short-Doyle funds to pay for these community programs is questionable from a legal standpoint. It appears that the department is using funds for a purpose other than the purpose for which such funds were appropriated.

We recommend that the Department of Health submit a status report on the community programs to the Joint Legislative Budget Committee, the fiscal subcommittees and the appropriate policy committees by March 15, 1978 which identifies how such programs will be funded in the current year.

Budget Year Funding Unclear

We recommend that the Department of Health submit a revised budget, including workload assumptions, for Chapter 1274 community programs in 1978–79 to the Joint Legislative Budget Committee, the fiscal subcommittees, and the appropriate policy committees by March 15, 1978.

As submitted, the Governor's Budget does not specifically identify any funds for Chapter 1274 community treatment programs. That is because the Governor's Budget proposes continuation of the present policy of funding community programs from reductions in a county's state hospital utilization.

As the Governor's Budget projects a slight hospital population increase in 1978–79 over 1977–78, we believe it is unrealistic to continue to expect the counties to fund the programs from savings that are not being realized. Therefore, we recommend that the Department of Health submit a revised 1978–79 budget, including workload assumptions, for community programs to the Joint Legislative Budget Committee, the fiscal subcommittees and the appropriate policy committees by March 15, 1978.

Correction Transfers Increasing

We recommend that the Department of Health submit information to the Joint Legislative Budget Committee, the fiscal subcommittees and the appropriate policy committees by March 15, 1978 explaining the increase in the number of corrections transfers.

Table 3 shows that the number of transfers from the Department of Corrections was estimated to be 136 on June 29, 1977, and is projected to be 180 on June 28, 1978 and 217 on June 27, 1979.

The department was not able to explain why the number of corrections transfers is increasing so rapidly.

We are concerned about these increases because presently the Department of Corrections does not pay for the care of individuals transferred to the Department of Health. There appears to be little constraint upon the Department of Corrections regarding the transfer of inmates. Also, if the increase projected in the Governor's Budget for transfers from the Department of Corrections does not begin to level off or decline, such increases could have a major impact on long-range projections for capital outlay planning for state hospitals.

DEPARTMENT OPERATIONS (ITEM 260)

We withhold recommendation on Item 260 for support of the Department of Mental Health pending the submission of the administration's expanded local mental health program.

The Governor's Budget proposes an expenditure of $6,945,281 General Fund to support the new Department of Mental Health in 1978–79. This amount cannot be compared to the current year expenditure due to the reorganization of the Health and Welfare Agency.

Chapter 1252 of the Statutes of 1977, (SB 363) reorganizes the Health and Welfare Agency effective July 1, 1978. The reorganization abolishes

DEPARTMENT OF MENTAL HEALTH—Continued

the Department of Health and the Department of Benefit Payments and consolidates the functions of the State Office of Alcoholism and the Division of Substance Abuse of the Department of Health. The employees, funds and property of these departments are distributed to the Employment Development Department and to the newly established Departments of Mental Health, Developmental Services, Social Services, Health Services, Alcohol and Drug Abuse, and the Office of Statewide Health Planning and Development.

The Department of Mental Health administers the Lanterman-Petris-Short Act. It is the goal of the Act to promote, develop, and reimburse providers for the cost of an array of services that will provide a continuum of support for persons who are mentally disordered. It is the objective of the Department that any California resident in need of mental health services will have access to such services regardless of geographic location or personal ability to pay. Emphasis is placed on services to those persons who because of geographic isolation, ethnic background, or financial restrictions have not had traditional mental health services available to them.

The budget proposals for the substantial expansion of the local mental health programs and for new programs including a local facilities construction program could substantially alter the administrative capacity of the new Department of Mental Health. Prior to making a recommendation on the departmental support budget, we believe it is essential to review the new program proposals and evaluate their effect on the department. We will submit a supplemental analysis of Item 260 after the Legislature receives the administration's new local program proposal.

Department of Mental Health
LEGISLATIVE MANDATES

Item 263 from the General Fund — Budget p. 641

Requested 1978–79	$283,660
Estimated 1977–78	283,660
Estimated 1976–77	213,000
Requested increase—None	
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. The reimbursement is required by Section 2231 of the Revenue and

Taxation Code.

This item proposes $283,660 in funds for Chapter 1061, Statutes of 1973, which revised provisions related to the review and submission of county Short-Doyle plans. This is the same amount that is estimated to be expended during the current fiscal year.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 264 from the General Fund, Item 265 from the EDD Contingent Fund, Item 266 from the Unemployment Compensation Disability Fund — Budget p. 652

Requested 1978–79	$46,537,833
Estimated 1977–78	44,537,209
Actual 1976–77	35,834,652
Requested increase $2,000,624 (4.5 percent)	
Total recommended reduction	$2,300,000

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
264	Employment Development Department	General	—
264(a)	Work Incentive Program (WIN)		$4,426,900
264(b)	Service Center Program		4,567,081
264(c)	Office of Economic Opportunity		155,500
264(d)	Migrant Services Program		3,993,166
264(e)	Job Agents Program		1,840,413
264(f)	Youth Employment and Development		2,500,000
Total Item 264			$17,483,060
265	Pro Rata Charges	EDD Contingent	2,048,825
266	Support DI Operations	Unemployment Compensation Disability	27,005,948
Total			$46,537,833

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Employment Services. Augment Item 264 by $200,000.* Recommend funding of pilot projects to serve special applicant groups. 557
2. Work Incentive (WIN). Recommend review during budget hearings by Departments of Employment Development and Benefit Payments regarding welfare grant reductions. 559
3. State Cal-ETA Office. Recommend report by State Cal-ETA Office regarding state's role in developing and implementing coordinated state manpower services. 562

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

4. Public Works Employment Act. Recommend modification of allocation process to provide early legislative review of proposed PWEA projects. 566
5. Current Population Survey. Recommend allocation of PWEA funds for one-year expanded current population survey. 567
6. Unemployment Insurance. Recommend legislation providing a comprehensive reform of the UI program. 569
7. Migrant Services. Withhold recommendation on Item 264 (d) pending policy review during budget hearings. 573
8. Migrant Rental Income. Recommend all rental income be shown in Governor's Budget as revenue to program. 574
9. Migrant Day Care Centers. Recommend review during budget hearings of needs for rehabilitation of migrant day care centers. 575
10. State Economic Opportunity Office. Withhold recommendation on 45.6 positions pending review during budget hearings of the use of exempt positions. 577
11. *Youth Employment and Development. Reduce Item 264 by $2.5 million.* Recommend deletion of additional support for Youth Employment and Development programs. 578

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

Chapter 1252, Statutes of 1977, transferred, effective July 1, 1978, the Employment Tax function from the Department of Benefit Payments to EDD. This function involves the tax collection activity for three state payroll taxes and the redetermination computation of unemployment insurance and disability insurance disputed benefit payments.

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval of Items 264(a), (b), (c), (e) and (f) and Items 265 and 266 as budgeted.

The proposed state appropriations to support the Employment Development Department in fiscal year 1978–79 total $46,537,833, an increase of

$2,000,624, or 4.5 percent, over the current year estimated expenditures. The state support consists of $17,483,060 from the General Fund in Item 264, $2,048,825 in Item 265 from the EDD Contingent Fund and $27,005,-948 in Item 266 from the Unemployment Compensation Disability Fund.

The total proposed budget, including federal funds, is approximately $2.45 billion. This is a decrease of $146.3 million, or 5.6 percent from estimated expenditures in the current year. The largest part of the decrease results from a reduction in Public Works Employment Act (PWEA) funds of $92.3 million. Unless Congress extends the PWEA program, additional funds will not be available after the third quarter of 1978. The Unemployment Insurance program expenditures are expected to be down about $85.6 million. (However, this projection does not reflect the extended coverage under Chapter 2, Statutes of 1978, (AB 644) which mandates UI coverage for state intermittent workers, local government employees and domestics. It is expected to increase disbursements from the Unemployment Fund by approximately $71 million annually when the coverage is in full effect.) There is also an anticipated decrease of $15.5 million in the Balance-of-State employment and training funds under the Comprehensive Employment and Training Act of 1973 (CETA). In contrast to the decreases, the Disability Insurance costs are expected to increase by an estimated $22 million which is part of the historical growth trend of that program due primarily to the increased level of benefits initiated by legislation.

The cost increases involving state funds appropriated in the Budget Bill are generally nominal and relate to normal price and merit salary increases with the exception of the Migrant Services program and the California Youth Employment and Development program.

The Migrant Services program shows an increase of $450,484 which is 12.7 percent above the current year estimated expenditures. This proposed increase of General Fund expenditures would replace the expected reduction in federal funds for rehabilitation of housing. The Youth Employment and Development program is new in the current year. Chapter 678, Statutes of 1977, appropriated $5 million for the program. The department expects a $2.5 million savings which will be carried over into the budget year and proposes an additional $2.5 million appropriation for the budget year. A non-General Fund item, the Disability Insurance administrative cost, will increase by a proposed $1,382,052, or 5.4 percent. Table 1 compares expenditures by program for fiscal year 1977–78 and 1978–79.

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

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 1
Employment Development Department
Gross Expenditures by Program

Program	*Estimated 1977–78*	*Proposed 1978–79*
Employment Services Program	$67,558,624	$68,954,034
Food Stamp Program	2,820,677	2,892,302
Work Incentive (WIN) and Related Services	46,580,919	48,364,504
Service Center Program	4,441,958	4,567,081
Job Agent Program	1,804,771	1,840,413
California Employment and Training Advisory Council	37,828,654	36,989,718
Balance-of-State Programs	51,837,966	36,290,981
Comprehensive Employment and Training Program	16,680,334	15,276,049
Public Works Employment Act of 1976 (Title II)	115,054,399	22,741,847
Unemployment Insurance Program	1,772,149,358	1,686,552,381
Disability Insurance Benefit Payments	455,886,269	477,925,920
Classified School Employees	—	12,398,226
Migrant Services Office	6,942,494	4,503,166
State Economic Opportunity Office (SEOO)	7,637,940	9,093,484
Youth Employment and Development Act of 1977	2,500,000	5,000,000
Personal Income Tax (PIT)	—	9,325,633
Contract Services	2,526,989	589,059
Administrative, Staff and Technical Services	(18,738,308)	(20,433,842)
Legislative Mandates	—	1,839,000
Transfer of Contingent Fund Surplus Funds	4,908,009	5,706,190
TOTALS, PROGRAMS	$2,597,159,361	$2,450,849,988

of which about 15 percent is from federal general revenues and 85 percent from the federal unemployment insurance taxes levied on employers. The 1978–79 budget proposes $68,954,034 for employment services. This is an increase of $1,395,410 (2.0%) over the current year.

The department has recently completed a two-year program to revitalize employment services, which has resulted in improvements. For example, placements that last for 150 days or more increased by 24 percent reaching 243,919 in fiscal year 1976–77 as compared with 196,595 in 1975–76. Also the number of placements receiving wages of $3.50 an hour or more rose to 155,158, an increase of 60,722 or 64 percent.

However, one disturbing statistic has not changed. In 1975–76, 620,446 ES applicants, 34.1 percent of all applicants, were inactivated from the files without receiving any services. In 1976–77, this percentage remained virtually unchanged at 34 percent (670,031 persons). Table 2 compares the number and percentage of applicants inactivated with or without any service.

Table 2
Inactivated Applicants With/Without Service

	1975–76	*1976–77*	*Increase*	*Percent Increase*
Applicants available	1,820,262	1,968,493	148,231	8.1%
Inactivated with service	714,898	802,364	87,466	12.2
Percent of total	39.3%	40.8%	N/A	N/A
Inactivated with no service	620,446	670,031	49,585	8.0
Percent of total	34.1%	34.0%	N/A	N/A
Remaining Active	484,918	496,098	11,180	2.3

Special Projects

We recommend that a new budget Subitem 264(g) be created in the amount of $200,000 to fund special projects designed to test the feasibility of increasing employment services to special applicant groups of displaced homemakers and unemployed professionals.

The fact that a large segment of the total applicant group still is inactivated with no service suggests that there are segments of the applicant population that are not provided with needed services resulting in job placements. We recommend that the state provide project funds for testing methods of providing services to special applicant groups.

Experience Unlimited. Among the applicant groups that are not well served are the professional, technical and managerial applicants for employment services. Many of these applicants receive their assistance through a self-help group, Experience Unlimited (EU), which receives office space and mailing privileges through the department. Based on interviews with persons associated with EU, we understand that a majority of those receiving help are older workers who had been employed for long periods of time prior to their unemployment and have had little recent experience in job seeking. Many of these workers have been displaced from their jobs by changing labor market conditions and need help in finding new ways to use their job skills effectively. EU was born out of such a change in the early 1970s when the aerospace industry was severely cut back in California.

Until recently there were 10 chapters of EU statewide. During 1977 the chapters in San Luis Obispo, Los Angeles and Long Beach closed apparently because of a lack of continuity in program leadership which changes frequently as volunteers become employed. We believe that this program offers a vehicle to establish a meaningful service to the professional and semi-professional unemployed. We recommend that state funding be provided on a one-time basis for a coordinating officer in the central office and staff liaison in three of the existing EU chapters in order to see if better service to unemployed professional persons will result with state assistance. The project staff should (1) collect and analyze data on the total costs of the program and the effectiveness of the program, (2) seek to develop more employer contacts for the professional, technical and managerial classes, (3) seek to identify and classify the types of skills of volunteers to the program along with characteristics of the volunteers and (4) determine through the course of the project whether the department could and should provide more services to unemployed professional and semi-professional workers than it currently does. The department should submit a preliminary report on the project to the Legislature in December 1978, and a final report on or before September 30, 1979. We recommend that budget Item 264 be augmented by $110,000 for these purposes.

Services for Displaced Homemakers. We also recommend funding for increased staff to provide employment-related services to displaced homemakers through the Older Worker Consultant program. Chapter 1063, Statutes of 1977, established a displaced homemakers' center in Alameda County for the period January 1, 1976 to January 1, 1978. Subsequent legislation extended the provisions for the center to January 1, 1979. In

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

addition, Chapter 754, Statutes of 1977, established a second displaced homemakers' center in Los Angeles County for a two-year period beginning January 1, 1978. Enabling legislation appropriated funds for establishing the centers but did not include funds for the state administrative costs of either project. Funds appropriated from separate legislation are reflected in Item 33, support for Secretary of Health and Welfare.

Legislation permitted the Secretary for Health and Welfare to delegate authority for administering these projects to any department within the agency. For the first two years of the Alameda County project, the secretary chose to retain administrative authority. However, on December 5, 1977, the secretary delegated authority for the Alameda County project to the Director of the Employment Development Department and delegated authority for the Los Angeles County project to EDD effective January 1, 1978.

Chapter 1063 mandates the Alameda County center to provide job training, job counseling, job placement, health care, educational programs, money management courses, and outreach and information and referral. Currently, the Alameda Center provides limited job counseling.

Analyst's Report. In accordance with the provisions of Chapter 1063, our office submitted a report to the Legislature in January 1978, which evaluated the effectiveness of the Alameda County center. In that report, we conclude that the center has had little significant impact and that the establishment of specialized centers leads to inefficient duplication of employment-related services. As a result, we recommend that legislation be passed to terminate the Alameda County center and to eliminate provisions for the establishment of the Los Angeles County center.

In our report, we also conclude that there is a need for the state to improve pre-employment and employment services available to displaced homemakers, but recommend that the center's activities be merged with ongoing state programs, such as the Older Worker Consultant program in EDD.

Older Worker Consultant Program. Court action recently directed EDD to reinstitute employment services to older workers through the use of older worker consultants located in each EDD office. The older worker consultant program was quite effective during the middle and late 1960s in locating jobs for and placement of older workers. In recent years the effectiveness of the program has greatly diminished. However, we believe reconstitution of the program offers a viable means of providing employment-related services to displaced homemakers.

In order to improve services provided to displaced homemakers through the Older Worker Consultant program, we recommend the funding of one professional position and related operating expenses and equipment at each of three EDD offices. These positions would be used to improve outreach to displaced homemakers, conduct intake, provide job information and referral, and develop and present a series of two to three workshops focusing on preparation for entry or reentry into the job market. We recommend that Item 264 be augmented by $90,000 to increase staff at three EDD offices on a one-year basis ending June 30, 1979 for these purposes.

We further recommend that the Employment Development Department submit an interim report to the Joint Legislative Budget Committee and the policy and fiscal committees in December 1978 which describes the activities of older worker consultants assigned to work with displaced homemakers and identifies the number of displaced homemakers participating in intake and workshops, the number of job placements, and the number of referrals made to other agencies. A final report should be submitted by September 30, 1979.

FOOD STAMP PROGRAM

All potentially employable applicants for food stamps are required to register for employment with EDD. To remain eligible for food stamps, registrants must accept referral to appropriate job openings.

This program is fully funded by the federal government. The 1978-79 budget of $2,892,302 is an increase of $71,625, or 2.5 percent. This will provide for 134 position equivalents.

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 for the WIN program with EDD to remain eligible for aid.

The WIN program is funded by 90 percent federal funds and 10 percent General Fund money. A total of $48,364,504 is proposed for the program in fiscal year 1978–79. The General Fund portion is $4,426,900 which is an increase of only $7,323 or 0.2 of one percent over the current year.

Annual Report

A draft of the ninth annual report to the Legislature which is to be submitted in February 1978 states that for the second year in a row the WIN program exceeded the federally established goals for both the number of participants entering employment and the amount of welfare grant savings which resulted. Table 3 compares accomplishments with goals for fiscal year 1976–77.

Table 3
WIN Goals and Accomplishments
Fiscal Year 1976–77

	Goal	*Actual*	*% of Goal*
Entered Employment	35,000	39,178	112%
Total Retained 30 Days or More	28,000	31,225	112%
Retention Rate	80%	82%	
Annualized Welfare Grant Reduction	$34,348,020	$54,564,454	159%

Welfare Grant Reductions

We recommend that the Departments of Employment Development and Benefit Payments jointly report to the fiscal subcommittees during budget hearings on the feasibility of developing an alternative method for measuring welfare grant reductions.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The federal WIN office uses the state Welfare Grant Reductions (WGR) reports (among several other factors) to determine each state's allocation of WIN funding. In California the WGR report is compiled by the Department of Benefit Payments on the basis of reports received from the county welfare departments. A number of the counties are submitting incomplete reports resulting in a significant under-reporting for California.

Although the state's WGR for 1976–77 was greater than had been targeted, its proportionate increase was less than the increase for other states resulting in a fiscal disadvantage to the state. The Department of Benefit Payments (DBP) estimates that California's allocation would have been increased by at least $2 million if a more accurate WGR were used.

The Department of Benefit Payments is currently preparing a report which will identify ways to coordinate and streamline the existing reporting procedures. In addition, the Department of Labor has made federal funds available to the state for assisting selected counties in implementing an automated reporting system.

Based on our experience in observing the planning and installation of automated systems, these efforts may take several years to complete. There are some indications from EDD that in the interim an alternative formula for more accurately computing the WGR could be developed using components already being collected as part of the WIN reporting system. There are differences of opinion between EDD and DBP as to whether a method can be developed that will be approved by the federal WIN office. We recommend a joint report before the fiscal subcommittees for the purpose of assuring that California's WIN allocation be as favorable as possible.

SERVICE CENTER PROGRAM

There are eight service centers located in San Francisco, Richmond, Avalon district of Los Angeles, 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 full potential of economic self-sufficiency.

The program budget request in Subitem 264(b) for 1978–79 is $4,567,081 which is an increase of $125,123, or 2.8 percent, over the amount estimated to be expended during the current year. The program is totally supported from the state General Fund. We recommend approval.

Program Redesign Completed

In December 1977, the department submitted a report on the redesigned service center program to the Legislature. The report indicates that the department has successfully established a viable program that is removing barriers to employment and successfully placing the economically and/or socially disadvantaged persons it serves.

The department has established a clearly defined separate program with 158 positions operating out of the eight service centers. Approximately 83 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 1978–79 include the successful closure of 5,228 cases.

JOB AGENT PROGRAM

The Job Agent program is designed to provide job placement and employability-related supportive services to economically disadvantaged persons who live within defined economically disadvantaged areas. There are currently 58 job agents located in 37 employment offices or service centers.

The budget proposes a General Fund appropriation in Subitem 264(e) of $1,840,413 which is a slight increase of $35,642 or 2.0 percent over the current year expenditure. The proposed budget would continue support for 58 Job Agent positions plus thirteen supportive staff. In addition, case service funds of about $110,000 would be available to assist clients in emergency financial matters related to removal of barriers to employment. We recommend approval of the budgeted amount.

CALIFORNIA EMPLOYMENT AND TRAINING ADVISORY COUNCIL AND OFFICE

The California Employment and Training Advisory Council and Office (Cal-ETA) are fully funded by federal grants and reimbursements. The budget projection for 1978–79 of $36,989,718 is a decrease of $838,936, or 2.2 percent, from the amount estimated to be expended during the current fiscal year.

The Cal-ETA Office, which administers the program, serves as staff to the council. It also administers the State Manpower Services Grant (SMS) which is designated to increase coordination and effectiveness of statewide employment and training programs. The office also administers the Governor's grant for vocational education services.

In addition to these three primary functions, the office coordinates the Public Service Employment programs (PSE) of various state agencies which are funded through CETA prime sponsors. The office estimates approximately $16 million expenditures for the Public Service Employment program in both the current year and the budget year. Finally, the office this year has been given the responsibility of administering a Youth Employment and Demonstration Project federal grant. The state received a one-year grant of $4,360,599, of which $1,587,721 is anticipated to

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

be spent in the current state fiscal year, with the remaining amount carried over into the first quarter of fiscal year 1978–79. Table 4 shows the program elements administered by the Cal-ETA Office.

Table 4

California Employment and Training Advisory Office

Element	*1977–78*	*1978–79*
Governor's Grant—Administration	$1,652,322	$1,487,090
Governor's Grant—State Manpower Services	7,881,605	7,045,445
Governor's Grant—Vocational Education	10,327,006	9,294,305
State Public Service Employment	16,380,000	16,390,000
Title III—Youth Employment and Demonstration Project	1,587,721	2,772,878
Totals	$37,828,654	$36,989,718

Statewide Planning and Coordination

We recommend that the State Cal-ETA Office submit a report to the Joint Legislative Budget Committee by December 1, 1978 identifying methods and recommendations for coordinating state manpower services and employment-related economic development programs.

The Cal-ETA Council and Office was created by state legislation with the purpose of planning and coordinating employment and training programs throughout the state. The Federal CETA Act provides funds for a council and staff with monitoring, coordinating and planning responsibilities similar to those mandated by state statute.

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 become 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. Table 5 shows the total amount of CETA funds allocated to California since the inception of the program.

Table 5

CETA Allocations to California

	1974–75	*1975–76*	*1976–77*	*Federal Transitional Quarter*	*1977–78*
Title I	None [a]	$158,723,409	$167,296,764	$39,964,946	$187,007,301
Title II	$64,769,414	57,807,788	225,808,525 [b]	13,980,738	193,687,172 [c]
Title VI	N/A	131,408,923	204,878,918	None	820,967,836 [c]
Summer jobs	None [a]	44,375,404	52,768,554	None	60,807,651
FY Totals	$64,769,414	$393,315,524	$650,752,761	$53,945,684	$1,262,469,960
Grand Total					$2,425,253,343

[a] Funded under MDTA authorities.
[b] Includes $66,969,285 regular and $158,839,230 supplemental.
[c] Includes fiscal years 1977–78 and 1978–79 allocations.
Note: Does not include planning grants for Youth Employment and Demonstration Projects Act, migrant and Indian programs, and job corps.
Source: Department of Labor/ETA, 9/30/77.

In the current fiscal year the state received $1.26 billion in CETA funds. The Cal-ETA Office is responsible for reviewing the plans of prime sponsors and the plans of state agencies that have entered into agreements with prime sponsors for employment and training services.

Although this role has been stated clearly in both federal and state legislation, the office has failed to achieve any measure of statewide coordination through its efforts. We believe that it is essential that California establish a strong planning, coordinating and monitoring system designed to meet the unemployment problems facing the population of the state. State economists and employment experts have recently declared that California can expect to have an unemployment rate of 7 percent or better for "years to come". 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.

In our 1977–78 Analysis, we listed the items which we believe must be considered by the office in fulfilling its role: (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 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 Cal-ETA 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. Until recently 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 addition, major policy decisions concerning job opportunities are made at different levels of government within the state—often without

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

adequate coordination. Local prime sponsors generally have the lead in employment and training programs, while the state government has the lead in economic development programs. In order for employment and training programs to alleviate labor market problems facing California, these activities must be coordinated with each other, and with economic development programs that share a common objective. This, in turn, requires the Cal-ETA Office to play a more active role in providing leadership to California's employment and training providers. To strengthen that role, we recommend that the office submit a report to the Joint Legislative Budget Committee by December 1, 1978 identifying: (1) employment and training resources in the state in terms of program dollar amounts available, targeted populations, program impacts or overlapping efforts, (2) objectives for California employment and training programs, (3) working strategies for achieving a maximum impact by the use of available resources and (4) methods for developing a statewide coordination of employment and training programs and employment-related economic development programs.

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 and to the state government serving as prime sponsor for the 29 "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 serving as this state's prime sponsor administers the program through local planning councils in each of the 29 counties. The CBOS expects to receive funds totaling $36,290,981 during fiscal year 1978–79. This is an anticipated decrease of over $15.5 million from the current year. Most of the reduction comes in Title VI of the CETA Act, which funds the antirecessionary public service employment program. (However, the president's revised budget proposal for fiscal year 1978–79 increases the national outlay for public service employment by $4.5 billion over the January estimates.)

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 a number of so-called national programs, including summer employment programs for economically disadvantaged youth. Title

VI, which was added as an emergency measure in 1974, provided for massive public service employment during the last recession. Title VI was recently extended and eligibility standards were modified to serve more of the disadvantaged unemployed.

Added to the budget in the current year and proposed again in the budget year is $2.4 million from Title III, Youth Employment and Demonstration Projects, which is designed to have long-term impact on structural unemployment problems of youth 16 to 19 years of age.

COMPREHENSIVE EMPLOYMENT AND TRAINING PROGRAM

Under the Comprehensive Employment and Training Act (CETA) of 1973, employment and training programs are locally administered through prime sponsors which contract with community based organizations and state and local entities to provide direct services to program participants. Many of the local EDD offices have entered into contracts to provide work experience, on-the-job training, vocational education and related services. Through these contractual arrangements, EDD will receive an estimated $11,355,011 during the current year and $12,275,221 in the budget year 1978–79.

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 1978–79 EDD expects to receive about $3.0 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 (3) providing labor market information services to California prime sponsors. During the current year the Disabled Veterans Outreach Program (DVOP) was instituted. Disabled Vietnam-era veterans were hired to provide outreach and employment services to disabled veterans. The budget projects $842,056 federal reimbursements for DVOP in 1978–79. Table 6 shows the program element costs and source of funding for the Comprehensive Employment and Training Program for 1978–79.

Table 6

Program Elements of Comprehensive Employment and Training Program

Element	*1977–78 Estimated*	*1978–79 Proposed*	*Source of Funding*
1. Comprehensive Manpower Services	$11,355,011	$12,275,221	Prime sponsors
2. Job Corps	894,739	928,210	CETA Title IV
3. Managers of Employment and Training	423,293	466,162	National Alliance of Businessmen
4. Labor Market Information	764,400	764,400	CETA Title III
5. Disabled Veterans Outreach	3,242,891	842,056	Federal Project Funds
Totals	$16,680,334	$15,276,049	

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

PUBLIC WORKS EMPLOYMENT ACT

The purpose of the Public Works Employment Act of 1976 (PWEA) is to stimulate economic recovery by providing federal fiscal assistance to state and local governments. Title II of the Act is designed as an anti-recession program with block grants distributed to state and local entities on the basis of revenue sharing formulas and unemployment rates.

Title II Programs are subject to two major statutory restrictions:

(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."

The budget projects a major decrease in Title II funds for fiscal year 1978–79, $22,741,847 in the budget year as compared to $115,054,399 in the current year. This reduction relates more to timing of federal funding under the act than it does to program changes. The first year funding of Title II (round 1) was received in the third quarter of 1976. Approximately $60 million were allocated to California in round 1. Funds were distributed on a quarter by quarter basis for five quarters retroactively to July 1, 1976, and continuing through September of 1977. Round 2 in the amount of approximately $100 million began in October of 1977 and will continue through September 1978. Funding is again distributed on a quarterly basis.

Actual expenditures in fiscal year 1976–77 were about $23.5 million. The department expects that $115 million will be spent between July 1, 1977, and June 30, 1978 from both round 1 and round 2 awards, leaving a balance from round 2 of about $22.7 million to be spent after July 1, 1978.

Two factors will affect the actual expenditures in the current and the budget years, (1) potential reduction of round 2 funding and (2) potential round 3 appropriations. In January 1978, the federal government announced that there was a dramatic drop in the national unemployment rates during the final quarter of 1977. This is expected to reduce the PWEA Title II remaining round 2 allocations by as much as one-third.

Even though the statutory formula may call for round 2 allocations to be reduced, there is the possibility that Congress will appropriate additional funds—either to prevent a reduction in round 2 funds, or for a new round 3. If that occurs the expenditure levels for fiscal year 1978–79 would be changed again.

Appropriate Legislative Review

We recommend that the Departments of Employment Development and Finance modify the existing process for allocating PWEA Title II funds so that (a) the Legislature is involved early in the process and (b) adequate planning, including the establishment of priorities, is accomplished for project approval.

The Governor has assigned to EDD responsibility to administer the PWEA Title II funds allocated to the state. The department has established a unit which does a programmatic review of all funding proposals submitted by state agencies, selects and recommends projects to a joint EDD/Finance review team. At the same time the Department of Finance does a budgetary review of each proposal, selects and recommends projects to the joint review team. The joint review team reviews the recommendations and makes a composite recommendation to the Director of EDD and the Assistant Director of the Department of Finance. If the project is approved, it is sent to the Joint Legislative Budget Committee for review.

The Legislature has experienced several difficulties with this process:

1) Timing of the legislative review is too late in the process to allow for meaningful involvement;
2) The process has not involved proper planning activity. In fact, we have found that departments are often unable to respond to basic questions regarding identification of need, implementing procedures, anticipated impact, future state costs, and the like.
3) No apparent priorities have been selected to assure the most cost-effective use of federal funding. For example, the budget proposal on page 660 line 80 shows $44.4 million PWEA funds for the current year as unallocated funds. Funds apparently are allocated as proposals arise which seem to be worthwhile.

We suggest that the existing process be modified and procedures implemented to assure that:

1. The Legislature is involved early in the process when meaningful decisions can be made.
2. Adequate planning is accomplished by the various departments to assure that appropriate information is available to the Legislature and the administration so that projects can be approved and priorities for federal funding established.

These changes should be incorporated as soon as possible to assure that any new proposals receive appropriate legislative review.

Project to Expand Current Population Survey

We recommend that EDD use unallocated PWEA Title II funds in the current year to negotiate a contract with the Bureau of Census to expand the current population survey in California by 35,000 members for one year (estimated cost $7,560,000).

Each month the Bureau of Labor Statistics (BLS) publishes a national analysis on population, labor force and unemployment. The data are collected for the BLS through the current population survey (CPS) conducted by the Bureau of Census. California's portion of the survey covers 5,000 households.

The information gathered through the CPS is used by BLS to determine local area unemployment statistics. On the basis of these statistics, the Department of Labor allocates billions of dollars of federal employment, training and public works funds to the states. But, as many recent articles in public journals have stated, the quality of these statistics is often poor because of the limited sample base (approximately .02 of one percent of the state's population).

Not only is the CPS crucial to allocation of federal jobs program dollars, but it is also a key to effective planning to meet the problems of the unemployed. Often efforts of local prime sponsors are frustrated by the

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

lack of reliable data by which to plan employment and training programs. For example, planners lack statewide and local data which identifies periods of employment and unemployment among the labor force, types of employment experience among the unemployed, age levels of the unemployed labor force, etc.

The CPS data are also valuable for other planning efforts. For example, the most recent data base that can be used for social and health planning efforts is the 1970 census. Information regarding income levels from that census are useless because of the changes which have occurred because of inflation. We believe that the enlarged CPS would be very valuable in planning for distribution of a wide variety of program dollars. The department indicates that expanding the survey by 35,000 for the first time would provide statistically reliable data for this purpose.

The Bureau of Census could expand its California Survey by 35,000 at a cost of about $18 per contact. If the survey were expanded for a 12-month period the cost would be about $7,560,000. We believe that PWEA Title II funds are an appropriate source for funding this project. First, it would be a labor intensive function which would employ as many as 650 persons in the state. Secondly, it would be a one-year project and thus would not require state expenditures to keep the program operating at the end of the year. Finally an expanded survey population might have a positive impact on the allocation of federal funds to the state.

We acknowledge, however, that the function may prove of enough value to planners to create pressure for continued state support using money from the General Fund. Were this to happen, it would have a considerable impact on state expenditures. Nevertheless, we believe the project could prove worthwhile on a one-time basis. Continued state support would be subject to legislative review after the results of this survey are presented.

UNEMPLOYMENT INSURANCE PROGRAM

The Unemployment Insurance (UI) Program operates under federal and state laws. Its primary objective is to reduce economic hardship that occurs when an eligible worker, 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 expected total UI program budget of $1,686,552,381 for fiscal year 1978–79 is $85.6 million, or 4.8 percent, less than expected 1977–78 expenditures. The bulk of the reduction is in benefit payments. The cost of administering the program is projected at $116,652,381 which is a reduction of $5,196,877, or 4.3 percent.

UI regular benefit duration 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. 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 1976 was about $639.2 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 7 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 1977.

Table 7

Unemployment Fund Balance and Total Income and Expenditures

Calendar year	*Fund balance End of year*	*Fund balance as percentage of wages: Taxable*	*Total*	*Total income*[a]	*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	782,128,696	876,506,172	123.2
1975	548,805,524	2.2	0.9	859,933,017	1,451,246,878	177.8
1976 (est)	639,190,101	1.6	0.9	1,459,529,188	1,290,836,498	90.2
1977 (est)	1,005,000,000	2.4	1.3	1,530,000,000	1,175,000,000	78.9

[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.

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 has helped 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 put the fund in a precarious position.

Comprehensive Unemployment Insurance Program Reform

We recommend that legislation be enacted for a comprehensive reform of the Unemployment Insurance program.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The primary goals of the 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 (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, income over time must be equal to disbursements. In the past, benefits have been expanded or coverage extended with no consideration given to the fund's long-term solvency.

During 1977, the department completed a study of claimant characteristics using a 6,000 member survey. Based on the survey data, the department formulated some tentative proposals for a comprehensive program reform that affected: (1) benefit levels, (2) qualifying requirement and (3) duration of benefits.

Benefit Levels. 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.

The UI program was initially designed to provide benefits equal to approximately 50 percent of each claimant's qualifying average weekly salary. Presently, California's benefit schedule pays lower wage earners benefits equal to about 53 percent or more of their average weekly earnings. The wage replacement ratio gradually decreases to a level of 41 percent or less for higher wage earners. The maximum benefit level has not kept pace with prevailing earnings patterns.

A benefit standard which is automatically tied to a percentage replacement of lost wages (perhaps somewhat higher for low salaried workers) 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 requirements of $750 during the base year fails to establish that the claimant is attached to the labor market. It is the most liberal eligibility determinant among the states. An individual working less than four weeks of work at the average weekly salary in covered employment could qualify for UI benefits for up to 28 weeks (see below). 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. This change would result in a cost savings which could be used for increased benefit levels without requiring an increase in the tax rate. We would suggest a required minimum number of weeks of work rather than any flat earnings requirement.

Duration of Benefits. Under the current system, regular benefits may be received up to a maximum of 26 weeks. (However, the total benefit cannot exceed 50 percent of the claimant's base year qualifying earnings.) After regular benefits are exhausted, a claimant may be eligible for an additional 13 weeks but not to exceed one-half of the number of weeks of his regular benefit entitlement. During periods of extended benefits, claimants may receive additional weeks of benefit entitlement.

Under the existing system, there have been some instances in which a claimant who worked three weeks during his qualifying period has been able to claim 14 weeks of regular benefits, 7 weeks of extended benefits and 7 weeks of special extended benefits for a total of 28 weeks of benefits. Some limit, such as a percentage of the weeks worked during the benefit year, should be placed on the benefit duration.

Counter-Cyclical Funding. We recommend that the funding mechanism of the UI program also be reviewed. 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.

The tax mechanism was designed to be counter-cyclical in operation by securing lower taxes during periods of economic softness or recession and higher taxes during economic recovery or expansion.

In practice, the mechanism has failed to provide a consistent counter-cyclical effect. During the severe recession of 1975, it was necessary not only to move to the high tax schedule 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 be counter-cyclical. At best, alternating tax structures could be designed to be implemented periodically by the Director of EDD to complement the prevailing economic conditions. However, a truly counter-cyclical tax structure cannot be implemented without substantially increasing the existing 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 tax mechanism must be made in the context of a total program redesign. We recommend that all of these issues be carefully balanced in the process of developing a much needed program redesign.

DISABILITY INSURANCE PROGRAM

The State Disability Insurance (SDI) program was established as a California state program in 1946. Its primary objective 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 $300 during a base year and worked in "covered employment" as defined in the UI Code. Employment may be covered

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

either under the state plan or a voluntary plan. Voluntary plans are sponsored by employers and approved by the Director of EDD.

The budget proposes a total expenditure for the DI program of $477,925,920, an increase of $22,039,651 over current year expenditures. This increase reflects in part the increase in benefit levels enacted during the 1977 legislative session. Item 266 appropriates from the Unemployment Compensation Disability Fund $27,005,948 for administrative support of this program during fiscal year 1978–79, an increase of $1,382,052. We recommend approval.

The program is funded by worker contributions equal to one percent of their monthly taxable earnings up to $11,400 per year. Chapter 1143, Statutes of 1977, increased the maximum weekly benefit from $119 to $146 and the minimum benefits from $25 to $30. The chapter made a number of other changes in the program most notably, effective January 1, 1979, the elimination of the hospital benefit which is payable at a rate of $12 a day for a maximum of 20 days.

CLASSIFIED SCHOOL EMPLOYEES

Pursuant to Chapter 1252, Statutes of 1977, the Classified School Employees program will be transferred from the Department of Benefit Payments to the Employment Development Department effective July 1, 1978. This program administers the Classified School Employees Fund.

State law requires that school employers must pay into the Classified School Employees Fund 0.5 of 1 percent of the wages paid to regular classified school employees and 3.6 percent of the wages paid to special projects classified school employees. The fund is used to reimburse the Unemployment Fund for UI benefits paid to former classified school employees.

The budget proposes an expenditure of $12,398,226 in the budget year, $12,000,000 of which is for projected benefit payments. The proposed administrative cost of $398,226 compares to an estimated expenditure in the current year of $388,365. The actual expenditures in the budget year will be affected by two statutes recently enacted.

In 1976 the Classified School Employees Fund reserve reached a level higher than normal benefit payments would require. Therefore, during the 1976 legislative session the Legislature enacted a temporary reduction in the tax rates to 0.2 of 1 percent for regular employees and 1 percent for special projects employees. The reduction was to be in effect for fiscal year 1976–77 only. Chapter 1231, Statutes of 1977, extended the reduced rates for two additional fiscal years. It is anticipated that the department will by that time be able to propose a more permanent tax schedule.

Chapter 2, Statutes of 1978, (AB 644) extended coverage to *certified* school employees and included them in the fund. At the same time, participation in the School Employees Fund was made voluntary to school employers rather than mandatory. It is expected that most employers will elect to continue participation in the fund. The coverage of certified employees is expected to increase benefit payments from the fund by about $13.4 million annually when the program is in full effect.

MIGRANT SERVICES PROGRAM

The Migrant Services program has as its major objective the provision of decent, safe and sanitary housing to migrant farmworker families during the agricultural working season. The Office of Migrant Services (OMS) administers the program providing temporary housing, child care services and supportive services for seasonal farm workers and their families. Twenty-five housing centers, providing approximately 2,100 houses for migrant families, are 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 an estimated $750,000 per year in reimbursements to the program. Approximately $510,000 of that amount is returned to the program operators for off-season maintenance of the centers.

The budget proposes total program expenditures of $4,503,166 in fiscal year 1977–78 which is $2,439,328 less than the expected expenditures during the current year. This decrease, however, reflects the absence of Title II Public Works Employment Funds (PWEA) in the budget year. The budget shows that in the current year a total of $2,889,812 in federal funds has been allocated to OMS for the rehabilitation and replacement of deteriorated housing stock. The proposed General Fund expenditures of $3,993,116 in 1978–79 constitute a $450,434 or 12.7 percent increase.

Policy Review

We withhold recommendation on the Migrant Services program (sub-Item 264d) pending joint policy review by the Employment Development Department and the Department of Housing and Community Development before the fiscal subcommittees of the Legislature.

In fiscal year 1976–77, the Legislature appropriated $100,000 to contract with an independent consulting firm to develop the Migrant Master Plan. The plan was to contain a projection of future needs for migrant housing, a determination of priorities for rehabilitating existing migrant housing stock, a cost projection for rehabilitating the housing and alternatives and recommendations for future operation and support of the migrant housing centers.

In December of 1976, the report was submitted. The Office of Migrant Services 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."

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

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 the findings of the report relating to immediate rehabilitation needs in the centers. We do not believe the recommendations to add 3,400 additional units is justified. The determination of need for expansion was based simply on the number of families who were turned away from centers during the 1975–76 season. We estimate conservatively that it would cost $10,000 per unit to put in new centers, an expenditure of $34 million.

In the 1977–78 analysis we recommended that the program be transferred from Employment Development Department (EDD) to the Department of Housing and Community Development (HCD) in order to assure that the program is fully integrated into a statewide farmworker housing plan. Chapter 345, Statutes of 1977, mandated the transfer effective July 1, 1979.

The budget proposes the third and final $2 million appropriation for rehabilitation of existing housing. The total General Fund appropriation of $6 million coupled with $1.75 million in PWEA Title II funds for deferred maintenance is expected to replace 331 houses, add 320 bathrooms to houses now using group facilities and add third bedrooms to 41 existing two-bedroom units. The office also received $2,716,595 in PWEA Title I funds which is being used to reconstruct the entire Parlier Migrant Center located in Fresno County.

In spite of the rehabilitation and replacement which has been accomplished, the need for additional construction is substantial. Several major decisions relating to rehabilitation of current facilities and expansion of new facilities are pending. For example, the budget indicates that five new sites will be developed during the budget year. We believe that no new sites should be developed until there is first a policy review to determine what construction has been completed, what construction is pending or in progress, what remains to be done and how the migrant housing program relates to the statewide farmworker housing plans developed by HCD. The review should also include a review of other potential sources of funding such as the Farmers Home Administration loans cited in the Migrant Master Plan.

Supportive Services. OMS is also responsible for promoting the development and delivery of supportive services to the migrant families such as health and medical services, nutritional services, employment information and referral, child day care and infant care. These supportive services responsibilities should also be reviewed before the fiscal committees together with the ongoing fiscal implications.

Rental Income

We recommend that all rental income be shown in the Governor's Budget as revenue to the program.

The Migrant Services program was originally supported through the federal Economic Opportunity Act during the agricultural growing season. Funds to pay for maintenance costs during the off-season were obtained through low rental charges. The entire rental income was redistributed to the centers for off-season repair and maintenance.

During the past several seasons two events have occurred affecting rental income: 1) federal funding terminated leaving the state fully responsible for maintaining the centers and eliminating the need to distinguish the off-season from the on-season maintenance costs; and 2) rental charges have been increased so that rental income exceeds the off-season maintenance costs.

The budget document reflects as reimbursements only that portion of the rental income which is redistributed to the contractors for off-season maintenance. We recommend that the total rental income be displayed as a program revenue available for distribution to overall program costs.

Migrant Day Care Centers

We recommend that the Employment Development Department submit a report to the fiscal subcommittees by March 31, 1978, on the physical condition of migrant day care centers and the improvements needed to ensure the adequacy of these facilities.

State-funded housing communities for migrant farmworkers include day care centers providing a supervised environment for approximately 2,100 children annually. These centers are intended both to enable mothers to contribute to the family income and to provide an enriched childhood experience for preschoolers.

Although the Department of Education has the principal administrative responsibility for these migrant day care centers, the Employment Development Department (EDD) is responsible for maintenance of the facilities. This function relates to EDD's broader role in ensuring that the 25 state-operated communities for migrant families provide safe and sanitary housing and supportive services.

The Office of Migrant Services (OMS) within EDD recently toured day care centers at state migrant housing communities to determine their quality. Numerous examples were found of centers in poor physical repair. Among needed improvements were window and door screens, plumbing fixtures, electrical wiring protection and ceiling and floor repairs. The office identified eight centers at which new day care buildings should be erected. The findings were similar to those of a number of earlier studies which documented a need to rehabilitate the day care facilities in order to improve conditions and correct problems potentially dangerous to the safety of children.

Federal Public Works Employment Act (PWEA) deferred maintenance funds which have been allocated to the state are a potential funding source for improvement of center facilities. In view of the short comings documented in migrant day care centers, EDD should (a) identify the specific needed renovations, (b) determine the costs of such improve-

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

ments and (c) submit its findings to the fiscal subcommittees by March 31, 1978, together with a determination whether funds necessary for center improvements can be appropriated from the state's PWEA grant.

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 $9,093,484 is an increase of $1,455,554, or 19.1 percent over the current year anticipated expenditures. The General Fund request of $155,500 remains at the same level as the current year. The basic administrative program is supported by 80 percent federal funds matched by 20 percent state funds.

Program Expansion

Fiscal year 1977–78 has been marked by major expansion in programs operated by the office. The 1977–78 budget was approved at a level of $1,009,794 but through a number of grant programs applied for and received by the office, the budget has expanded more than six-fold to a total of $7,637,940. Most of the new programs are renewed weatherization programs or new programs of the same nature. The weatherization programs offer the opportunity for low income families in rural districts to receive assistance in insulating their homes. The purpose of these programs is tied to energy conservation as well as income assistance to the low income population in rural communities.

In addition to the weatherization programs, the office administers the Housing Intern program which trains housing loan assistants and housing loan aides to package rural housing loans for low income people. Funding for these low interest loans is available through the Farmers Home Administration. In 1977–78, the program was statutorily transferred to the Department of Housing and Community Development but it is being operated by the office under an interagency agreement. The office also administers the balance of state summer youth program. Table 8 depicts the major programs operated by the office.

Table 8
Programs Administered by SEOO
Positions and Expenditures

	Estimated positions 1977–78	*Proposed positions 1978–79*	*Estimated expenditures 1977–78*	*Proposed expenditures 1978–79*
Local agency assistance	43.9	39.6	$943.537	$777,550
Housing Intern Program	16	16	218,003	188,192
Low-Income Weatherization Balance-of-State Weatherization PWEA Weatherization CAA Energy Skills Weatherization	40.2	44.7	6,421,400	8,072,792
Balance-of-State Summer Youth	1	1	50,000	50,000
Totals	101.8	101.8	$7,637,940	$9,093,484

The local agency assistance element is the primary function of the office. The office works with local community action agencies and other community-based organizations in an effort to mobilize state and federal resources to improve the ability of local agencies to provide services to the poor. This emphasis on assisting local agencies is another in a series of changes which have taken place in the focus and thrust of the State Economic Opportunity Office.

Since the office was first established by an executive order of the Governor in 1964, it has undergone a number of changes in direction. Initially, it served primarily as a review and regulatory arm of the Governor. In that capacity it was often at odds with local community action agencies. In recent years, the office has attempted to assume a posture of exercising leadership in coordinating statewide antipoverty programs. During the past year, it has operated without a director under the leadership of three separate interim acting directors. The most recent acting director has focused attention on mobilizing resources with the primary aim of assisting local agencies to provide services to the poor.

Exempt Positions

We withhold recommendation on 45.6 positions shown in the budget as administratively added during 1977–78 and to be continued in 1978–79 pending a review of exempt positions during the budget hearings.

The budget proposes a total of 45.6 new positions added during 1977–78 and continued into the budget year. These positions include the director and assistant director positions. In reviewing the budget request, we were concerned with the fact that of a total of 101.8 positions, all except 10 are exempt from the civil service system. We were also informed that the personnel transaction unit of the Employment Development Department will soon complete a personnel audit and wage comparison study of the office. We recommend that the Departments of Employment Development and Finance present a report to the fiscal committees during the budget hearings regarding the results of the personnel audit and recommendations regarding the number of exempt positions which should be allocated to the office. We recognize that there are a number of grant programs operated by the office which require flexibility of position control but do not believe that the current number of exempt positions is appropriate.

YOUTH EMPLOYMENT AND DEVELOPMENT ACT OF 1977

The California Youth Employment and Development program was created by Chapter 678, Statutes of 1977 (AB 1398). The chapter established within the Employment Development Department the responsibility for a comprehensive youth employment and development program. The department is required to administer funds appropriated to the program in cooperation with other state agencies and with the CETA prime sponsors.

Programs created by the chapter are targeted for youths 16 to 22 years of age. Three major categories of programs are mandated: (1) on-the-job training programs designed to provide work experience and develop job skills through employment in the private sector, (2) community service

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

programs which would seek to combine community betterment projects with youth employment and training programs; and (3) innovative demonstration projects aimed at keeping youth in school and concomitantly developing a smoother transition from school into the employment market than presently exists. Sixty percent of the funds appropriated by the chapter must be spent on the OJT and community service programs.

The program will be operated by the State Cal-ETA office in the department through contracts with public and private organizations. If suitable contractors cannot be found, the chapter authorizes the department to implement the projects directly.

Withhold General Fund Support for Youth Employment

We recommend that Item 264 be reduced $2.5 million by eliminating from the budget Subitem 264(f), support for youth employment and development programs.

Chapter 678, Statutes of 1977, appropriated $5 million to the department for implementing the Youth Employment and Development Act. The budget proposes the expenditure of $2.5 million of the amount appropriated by the chapter during the current fiscal year and a carry-over of $2.5 million into the budget year. In addition, the budget proposes in Item 264(f) an appropriation of $2.5 million to continue an annual expenditure level of $5 million for the program.

There are large sums of new federal dollars being allocated to California for creating and implementing youth employment programs.

1. Under CETA Titles I, II and VI, the federal government has allocated $1.26 billion to California prime sponsors. In 1976, 42 percent of these funds provided employment and training services for persons aged 21 or less.

2. The Youth Employment and Demonstration Projects Act of 1977 authorized expenditures of $1 billion nationwide for youth employment programs. California received about $100 million of the national appropriation.

3. Over $600 million in federal, state and local funds are spent for vocational education programs in California annually.

In enacting Chapter 678, the Legislature indicated a desire to provide EDD the opportunity to test innovative youth employment and training programs so that better solutions for youth unemployment could be developed. For that purpose, $5 million was appropriated to EDD from the General Fund. In addition, EDD received $4.3 million from the National Youth Employment and Demonstration Projects Act of 1977. Funds under the California act and the federal act are to be used essentially in the same manner and for the same purpose. We believe that the total of $9.3 million offers the department ample opportunity to test innovative programs. We recommend that additional General Fund support be withheld until the department has demonstrated an effective use of current funds and validated the need for additional support.

PERSONAL INCOME TAX (PIT)

The Personal Income Tax (PIT) program is designed to collect deductions from workers' wages through employers in the state. All employers are required by law to deduct, report and pay personal income tax. Tax schedules are prepared by the Franchise Tax Board and contributions are collected by the Employment Development Department acting as an agent for the State of California.

Until July 1, 1978, the PIT program will be operated by the Department of Benefit Payments. Chapter 1252, Statutes of 1977 (SB 363), transferred the responsibility for employment tax operations to the Employment Development Department effective July 1.

The department will collect taxes from approximately 500,000 employers in the state. Three payroll taxes are collected: unemployment insurance taxes, disability insurance taxes, and state income taxes. The UI and DI functions are displayed under those respective programs in the Governor's Budget and the PIT program is displayed as a separate program. Table 9 shows the three programs in terms of personnel-years and expenditures.

Table 9
Employment Tax Operations
Personnel Years and Expenditures

	Estimated positions 1977–78	*Proposed positions 1978–79*	*Estimated expenditures 1977–78*	*Estimated expenditures 1978–79*
Unemployment Tax Collection:				
Employment Development	42.3	888.0	$937,880	$19,157,473
Department of Benefit Payments	794.6	—	16,137,070	—
DI Tax Collection:				
Employment Development	—	193.8	—	4,433,890
Department of Benefit Payments	182.9	—	4,154,183	—
Personal Income Tax:				
Employment Development	—	395.0	—	9,325,633
Department of Benefit Payments	370.2	—	7,514,035	—
Totals	1,390.0	1,476.8	$28,743,168	$32,916,996

The budget proposes an increased expenditure for the PIT program in the budget year of $1,811,598, or a 24.1 percent increase. The program is funded through reimbursements from the State Franchise Board to which General Fund monies are appropriated for that purpose.

ADMINISTRATIVE 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 1978–79 of $20,433,842 distributed to the other departmental programs. This is an increase of $1,695,534, or 9 percent, over the current year expenditure estimates. The primary reason for the increase is the transfer of the employment tax operations to the department.

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 $5,706,190 from the Contingent Fund to the two insurance funds during 1978–79. This is an increase of $798,181, or 16.3 percent, over the current year projected transfer of funds.

Item 265 appropriates $2,048,825 to the department for payment of charges not allowed by the Department of Labor. This is the same level as the current year budget appropriation. We recommend approval.

Employment Development Department

LEGISLATIVE MANDATES

Item 267 from the General Fund — Budget p. 668

Requested 1978–79	$1,839,000
Estimated 1977–78	911,267
Actual 1976–77	329,733
Requested increase $927,733 (101.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes $1,839,000 for reimbursement to local government entities for legislatively mandated local costs. This is an increase of $927,733 or double the current year anticipated expenditures. The General Fund Legislative Mandate amount of $1,839,000 for 1978–79 consists of three parts:

1. $200,000 for the State Controller to use in reimbursing specified local agencies for expenses incurred based on amendments to the Unemployment Insurance Code.
2. $739,000 to pay for prior year (actual 1976–77 and anticipated fiscal year 1977–78) deficits in expenses incurred due to legislation amending the UI Code.

3. $900,000 to pay for budget year (1978–79) expenses incurred in the Classified School Employees (CSE) Fund that are due to legislation amending the UI Code.

Health and Welfare Agency
DEPARTMENT OF REHABILITATION

Items 268–269 from the General Fund — Budget p. 679

Requested 1978–79	$14,621,322
Estimated 1977–78	11,621,666
Actual 1976–77	10,856,514
Requested increase $2,999,656 (25.8 percent)	
Total recommended reduction	$67,298

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
268	Support, Department of Rehabilitation	General	$12,101,322
269	Allocation to Sheltered Workshops	General	2,500,000
Chapter 959, Statutes of 1977			20,000
Total			$14,621,322

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Field Operations. Recommend administrative review of program supervisors' workload responsibilities. — 586
2. Position Identification. Recommend review by State Personnel Board of new field positions currently staffed by training and development assignments. — 587
3. Industrially Injured Public Employees. Recommend legislation to extend rehabilitation coverage to public employees. — 589
4. Developmental Services. Withhold recommendation pending receipt of joint report on respective roles of the Departments of Rehabilitation and Health in serving the developmentally disabled. — 590
5. Habilitation Services. Recommend "habilitation services" be presented as separate program in Governor's Budget. — 591
6. Work Activity Program. Withhold recommendation on 15 positions pending clarification of sheltered workshop needs and roles of Departments of Rehabilitation and Health. — 592

DEPARTMENT OF REHABILITATION—Continued

7. *Administrative Growth. Reduce Item 268 by $33,092 (General Fund).* Recommend deletion of 11 proposed new positions. 594
8. *Consultant and Professional Services. Reduce Item 268 by $34,206.* Recommend reduction of over budgeted line item. 595

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation's primary responsibility is to assist and encourage physically or mentally handicapped individuals to prepare for and engage in gainful employment to the extent of their abilities. Secondary responsibilities of the department include the removal of architectural and transportation barriers, the provision of special adjustment training to the blind and severely disabled, the establishment of the blind and disabled as operators of food vending and service facilities, and the development of programs for the disabled through public and private nonprofit community rehabilitation facilities. The secondary responsibilities are intended to facilitate achievement of the primary goal.

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. Small Business and Job Development
3. Development of Community Rehabilitation Resources
4. Administration

ANALYSIS AND RECOMMENDATIONS

For the 1978–79 fiscal year, the budget proposes a total program expenditure of $108,138,278, of which $85,486,714, or 79.1 percent, is from federal funds and $14,621,322, or 13.5 percent, is from the General Fund. Reimbursements of $6,081,649 constitute 5.6 percent of the budget. An additional $1,948,593, constituting about 1.8 percent of the total budget, is from special deposit funds. Table 1 summarizes the sources of funding for fiscal years 1977–78 and 1978–79.

Table 1
Summary of Funding Sources
Department of Rehabilitation
1977–78 and 1978–79

	1977–78	*1978–79*	*Percent Change*
General Fund	$11,621,666	$14,621,322	+25.8%
Federal funds	85,671,361	85,486,714	−0.6
Special Deposit Fund—Vending Stand Account	893,222	946,815	+6.0
Federal funds: Special Deposit Fund—Vending Stand Account	1,001,778	1,001,778	—
Reimbursements	5,645,204	6,081,649	+7.7
Total	$104,833,231	$108,138,278	+3.2%

The total proposed expenditure for 1978–79 is $3,305,047, or 3.2 percent, over current year expenditures. Expenditures from the General Fund would be increased by $2,999,656, or 25.8 percent, while expenditures of the federal funds would decrease slightly by an estimated $484,647.

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.

Approximately 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 the federal Public Works Employment Act (PWEA) and from revenues anticipated as payment for rehabilitation services purchased by insurance carriers or former employers of disabled clients who became disabled through industrial injuries.

A major increase in the proposed General Fund expenditure for the 1978–79 fiscal year is the $2.5 million in Item 269 for providing partial funding to community based workshops and work activity centers for services to developmentally disabled clients who are eligible for services under the Lanterman Developmental Disabilities Services Act but who otherwise receive no public-funded monies. These expenditures would not be matched by federal funds.

A comparison of the proposed budget with that of the current year shows a significant variation in the percentage of resources allocated to various departmental activities. Of particular note is the growth in the percentage of resources allocated to "other rehabilitation services." No significant change is anticipated in the Small Business and Job Development Program. Funds allocated to the Development of Community Resources are expected to drop significantly. Table 2 compares the estimated number of personnel-years and total expenditures by program for the current year with those proposed for 1978–79.

Table 2

Department of Rehabilitation
Personnel-Years and Gross Expenditures by Program
1977–78 and 1978–79

	Estimated personnel-years 1977–78	*Proposed personnel-years 1978–79*	*Estimated expenditures 1977–78*	*Proposed expenditures 1978–79*
I. Rehabilitation of disabled	2,212,2	2,191.5	$95,691,966	$100,921,078
A. Basic rehabilitation services	(2,193.5)	(2,158.4)	(94,780,555)	(97,108,052)
B. Other rehabilitation services	(18.7)	(33.1)	(911,411)	(3,813,026)
II. Small business and job development	60	59.9	3,457,150	3,473,607
III. Development of community rehabilitation resources	42.7	41.8	5,684,115	3,743,593
IV. Administration (distributed to other programs	(342.9)	(343.5)	(9,994,684)	(10,108,020)
Total	2,314.9	2,293.2	$104,833,231	$108,138,278

DEPARTMENT OF REHABILITATION—Continued

I. REHABILITATION OF THE DISABLED

This program provides direct services designed to help disabled persons overcome their physical or mental handicaps with the primary goal of enabling clients to secure employment. Vocational rehabilitation has been defined as the 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 fiscal year 1976–77, each rehabilitation counselor was allocated an average of $40,775 in case service funds for purchase of services for caseloads of between 60 and 100 clients.

Assessment of Current Status

During the past two years, a number of major changes have taken place in the department which we believe will improve its operations.

Some positive steps have been taken in the area of developing resources for the training and placing of disabled persons through programs such as the Comprehensive Employment and Training Act (CETA) and the Public Works Employment Act (PWEA). As a result of improvements in the Business Enterprise Program (BEP) more blind persons have the opportunity to enter into business enterprises, and existing operators have been given improved services. Steps are being taken to open business opportunities to other disabled client groups through the Job Development Program. A number of new efforts also have been made to provide prevocational or nonvocational services to severely disabled persons. Opportunities have been broadened for the disabled in such areas as transportation, housing, school opportunities, etc. These prevocational and nonvocational efforts are likely to have a positive impact on the number of disabled who eventually are ready for vocational services.

Although a number of bold and innovative programs have been initiated, we have concern with the primary program of the department, that is *vocational* rehabilitation of the disabled. A number of early administrative decisions were made which proved to be counter-productive to the achieving of the goal of rehabilitating the disabled, such as the termination of services to the mildly disabled. Many of these decisions have now been rescinded or modified and there is some indication that the productivity of the department in terms of annual rehabilitations may be improving.

Production Record The basic measurement of output of the Department of Rehabilitation is the number of disabled persons who are successfully rehabilitated during a fiscal year. The annual budget presentation projects the number of rehabilitations expected during the budget year.

Since fiscal year 1971–72, the department has consistently projected annual rehabilitations at a substantially higher rate than the number achieved. Table 3 shows the projected number of rehabilitations as contained in the annual Governor's Budget, the number as revised in the second-year budget presentation and the actual number achieved.

Table 3
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	12,278	69.0
1977–78	14,667	15,100	–	–

As Table 3 indicates, the department's budgeted projections of successful rehabilitations are usually reduced by the middle of the fiscal year, and the actual result is still lower. The number of rehabilitations achieved during fiscal year 1976–77 was the lowest of the six most recent fiscal years. However, a number of corrective actions have been taken by the department in recent months, and the downward trend was reversed during the final quarter of 1977.

Significantly, the department's mid-year estimate for fiscal year 1977–78 has been revised upward from 14,667 to 15,100. We believe the department is overly optimistic in this projection. Nevertheless, reports reveal that monthly rehabilitations exceed those of a year ago. We expect the number of rehabilitations achieved in 1977–78 to reach or exceed 14,300 which would be an increase of more than 2,000 over the achievement of fiscal year 1976–77.

Performance Standards Adopted. Probably the most effective action in reversing the department's downward productivity trend was the adoption of performance goals and standards. The department goal is to reach the projected national average of 27 rehabilitations per weighted case carrier by the end of fiscal year 1979–80. To achieve the goal, a set of objectives has been adopted including, but not limited to the following:

a. Complete an average of four new plans per counselor per month;
b. Have ninety-four percent of all rehabilitated clients in some type of paid employment (as distinguished from sheltered workshops, homemakers, etc.);
c. Increase the average entry level wages for all rehabilitated clients

DEPARTMENT OF REHABILITATION—Continued

from $126 per week to $175; and

d. Maintain an open caseload of not less than 50 percent severely disabled.

Progress toward these objectives is being made in part through the adoption of formalized performance standards by which the quality and quantity of counselor work performance is being evaluated.

Field Staff Changes. In 1975–76, the staff in field offices was reduced by 100 positions. This reduction in field staff was a major factor contributing to the decrease in the number of disabled being rehabilitated. In 1976–77, the field staff was augmented by 113.5 positions. The strengthening of field offices is contributing to the increasing level of productivity.

Field Operations

We recommend that the department request the Department of General Services to review and prepare recommendations regarding program supervisors' staffing standards, workload responsibilities and training needs.

A report completed by the Department of General Services in August 1974 discussed among other problems the absence of clearly stated or understood duties of rehabilitation supervisors. Supervisors have had varied workload responsibilities many of which are unrelated to supervising or training counselors.

In November 1975, the department announced a change which was ostensibly designed to remove many of the housekeeping and business activities from the first-line supervisory class. The supervisor is now responsible for a larger number of counselors and is required to focus more of his energies on helping counselors to serve clients. However, our field visits reveal that outside duties still remain which detract from effective supervision. Community liaison work and resource development activities still occupy a great deal of the supervisors' time.

There is also the need for special training of supervisors in the area of structuring their work with counselors in such a way as to define effectively their own role and those of their subordinates toward measurable goal attainment.

The introduction of performance standards will add significantly to the responsibility of program supervisors. The department's new standards will require an increase in the number of plans being written by counselors from the current department-wide total of approximately 20,500 per year to a new level of 32,000 per year. The standards also require that there be supervisory review of case records at three points: at the time of client acceptance, at the time a plan is written and at the time of closure. Currently, the supervisor is required to review the case only at the time of closure. In addition, the new standards require specific new actions during the review process which add somewhat to the supervisory responsibility.

The 1976–77 annual report of the department indicates that "counselors will need additional supervisory help, especially because of the new performance standards now being implemented. The department is evaluating requirements, and may soon request budgetary relief from the current 1:8 supervisor/counselor ratio." Both the field and the central office staffs suggest that the current ratio will not allow supervisors to meet all the responsibilities of the job adequately. We recommend that the department request the Department of General Services to review and make recommendations regarding the program supervisors' responsibilities and training needs. The study should specifically review the appropriateness of the current supervisor/counselor ratio.

Position Identification

We recommend that the State Personnel Board work with the Department of Rehabilitation to determine if the positions of district management assistant (DMA) and district occupational resource specialist (DORS) currently staffed by training and development assignments should be formalized and civil service classifications developed for filling the positions.

In early 1976 the field office positions of assistant district administrator (ADA) and placement representative were eliminated. However, during the past year the department has designated district management assistant (DMA) positions in each of the district offices as training and development assignments. In most instances, the DMA is a program supervisor who functions much as the former ADA, but without receiving higher pay. In a few instances, the training and development assignment has been given to a senior vocational rehabilitation counselor or to a supervising clerk. Our field observations indicate that in many districts there is a need for an assistant to the district administrator. However, such a position should be properly established, job specifications developed and appropriate salary levels set.

The district occupational resource specialist (DORS) position functions somewhat like the former placement representative position. The basic difference is that the DORS is not involved in making direct placements. Rather, placement resources are developed for use by the counselors. The DORS positions, like the DMA, are being filled through the use of training and development assignments. Our field visits indicate that this is a useful position which should be fully developed so that persons with proper skill levels and at appropriate salary levels can be utilized to strengthen the program. We recommend that both these positions be reviewed by the State Personnel Board in coordination with the department and that appropriate action be taken.

Industrially Injured Workers

The department is seeking to establish a self-supporting rehabilitation program by providing services to workers who were injured on the job. Fees for services are charged to insurance carriers or to former employers of the injured worker.

Chapter 1435, Statutes of 1974, (AB 760) requires 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 approximately 259,610 disabling work

DEPARTMENT OF REHABILITATION—Continued

injuries sustained in California. It is further estimated that at least 12,000 persons, annually, could profit from rehabilitation services as a workers compensation benefit. Under the program, therefore, there is a potential for substantial recovery of 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. If rehabilitation costs can be efficiently recovered from insurance programs, more federal/state rehabilitation funds will be available to serve other disabled persons.

Public Works Employment Act. In order to implement the program, the department was granted funds under Title II of the Public Works Employment Act (PWEA) of 1976 to expand services to the industrially injured. A total of $464,487 was granted during fiscal year 1976–77 and $318,204 in 1977–78.

When the funding was exhausted in September 1977, the department requested and was granted additional support under PWEA, round 2, in the amount of $720,000. These funds will continue the program through December 31, 1978. (A description of the Title II PWEA program appears in the Budget Analysis relating to the Employment Development Department.)

The department had projected that the program would become self-supporting by June 1978. However, this expectation will not materialize. The department, competing with approximately 100 other rehabilitation vendors in the state, serves about 16 percent of all cases. Insurance carriers or self-insured employers serve 9 percent directly and the remaining 75 percent are served by private rehabilitation vendors. The more complex cases (those being contested by the insurance carriers) tend to be referred to the department. As a consequence, services may be provided through federal/state resources instead of as an insurance benefit. Since November 1976, the cost recovery rate has risen from about 4 percent to only about 20 percent. Program improvements or redefinitions will be necessary if the program is to become self-supporting.

One such improvement was made in December 1977, when the department entered into an agreement with the Department of Industrial Relations which will enable the department to receive retroactive reimbursements for services rendered. This should increase appreciably the volume of reimbursements. However, it is still unclear whether the program can become self-supporting. This issue must be reconsidered at the end of calendar year 1978 when PWEA funding will be exhausted.

Industrially Injured Public Employees

We recommend legislation to make rehabilitation benefits mandatory for industrially injured public employees.

Chapter 1435, Statutes of 1974, required that rehabilitation services be provided to all industrially injured workers who could benefit from such services, but it did not repeal provisions of another section of the Labor Code which make rehabilitation services voluntary for all public workers, employers or insurance carriers. As a result, public entities are exempt from the provisions of Chapter 1435, according to the Legislative Counsel and the State Attorney General. (This exemption is being challenged in the court system.)

Approximately 40 public agencies (primarily the larger cities, counties and school districts in the state) are self-insured under the Workers Compensation Law. These agencies are reluctant to provide rehabilitation services to injured employees because of the costs of these services.

A repeal of the Labor Code provisions which exempts public entities from the requirements of Chapter 1435 would require state reimbursements for state-mandated costs. Nevertheless, we believe that public employees should have the same access as private employees to rehabilitation benefits. Analyses by the department indicate that rehabilitation of injured workers is cost-beneficial and should be available to all industrially injured workers, public as well as private.

Other Rehabilitation Services

Although the primary goal of programs administered by the Department of Rehabilitation is assisting physically or mentally handicapped individuals to prepare for and engage in gainful employment, the department provides other rehabilitation services which are not necessarily vocational in nature. These nonvocational services include in-home training of blind and deaf-blind persons in daily living skills, reader services for blind university and college students, technical assistance to local independent living programs, and an increasing variety of services to the severely disabled, including the developmentally disabled, in sheltered workshops.

The budget proposes a new Budget Act appropriation for sheltered workshops in the amount of $2.5 million. This is the first major General Fund appropriation proposed by the department for purchasing "habilitation services," that is, services which are not necessarily vocational in nature. Because there is no competitive employment potential for these clients, federal vocational rehabilitation matching funds cannot be used for this purpose. The purpose of the appropriation is to reimburse community-based workshops and work activity centers for up to 20 percent of the annual cost of services provided to developmentally disabled clients. The budget specifies that no more than 5,000 clients will be supported and that those supported must be eligible for services under the Lanterman Developmental Disabilities Services Act but not supported in the workshops by any other public funds.

In recent years, a shortage of funds for rehabilitation facilities has developed throughout the state. Sales of products produced by the workshops

DEPARTMENT OF REHABILITATION—Continued

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 and United Way resources have not increased sufficiently to meet inflationary cost increases. In addition, the costs of providing Worker's Compensation coverage for sheltered workers has escalated.

In response, community rehabilitation facilities have turned to other financing methods such as fees for services rendered to disabled individuals, and planned fund raising activities, and have requested increasing amounts of state subsidization.

Developmental Services and Workshops

We withhold recommendation on the proposed appropriation of $2.5 million in Item 269 and related proposals pertaining to workshop services for developmentally disabled (DD) persons pending submission and review of additional information.

We further recommend that the Departments of Health and Rehabilitation submit a joint report by March 15, 1978 to the fiscal subcommittees, the policy committees and the Joint Legislative Budget Committee clarifying funding needs and departmental roles.

The budget contains a number of proposals related to workshop services for persons who are developmentally disabled (DD):

1. $399,914 General Fund in Item 258(m), Developmental Services, for the Department of Developmental Services to purchase case management services from the Department of Rehabilitation as a demonstration project.
2. $1.6 million General Fund in Item 258(l), Developmental Services, to implement an actual cost reimbursement system for workshop services purchased by regional centers.
3. $2.5 million General Fund in Item 269 for the Department of Rehabilitation to fund community workshops and work activity centers for DD persons.

At present, there is not sufficient information on these proposals to resolve a number of major issues. For example, the Department of Health (effective July 1, 1978, the Department of Developmental Services) currently funds workshop services for DD persons through the Regional Center program. Regional centers provide specified services, including diagnosis, evaluation and referral, and purchase other services, such as workshop services and out-of-home care for DD persons. The Department of Rehabilitation's proposal to maintain DD persons in workshop services appears to: (1) represent a duplication of workshop services that are presently funded by the Regional Center System and (2) obscure the sources and levels of funding for workshop services for DD persons. Until more information on both the Department of Rehabilitation's and the Department of Health's services to DD persons is available, we are unable to analyze the $2.5 million proposal. The following information should be provided:

1. Identification of all current and proposed funds available for work-

shop services for DD persons in the Departments of Health and Rehabilitation. Such information should include caseload data, types of services purchased and reimbursement levels.

2. Information indentifying the need for workshop services for DD persons.

3. Justification for the $1.6 million proposed in Item 258 to implement an actual cost reimbursement system for workshops funded by regional centers. (The data provided to us did not identify the number of regional center clients and workshops that would be affected by the proposed $1.6 million increase.)

4. Justification for the Departments of Health and Rehabilitation both funding workshop services for DD persons.

5. Identification of the current roles and responsibilities of the Departments of Health and Rehabilitation in the provision of workshop services to DD persons.

Habilitation Services

We recommend that "habilitation services" be presented as a separate program in the Governor's Budget so that (a) the elements of the program reflect the basic purposes, and (b) the costs and benefits of the program are clearly identified.

Traditionally, the Department of Rehabilitation has provided services aimed at vocational rehabilitation, i.e., services which directly relate to employment of the disabled client. The Rehabilitation Act of 1973 dropped the word "vocational" from its title and mandated that priority be given to serving the severely disabled. During hearings on the proposal, Congress considered providing the disabled with more services which are prevocational or nonvocational in nature, such as skill training necessary for the severely disabled, who have no immediate potential for employment, to establish and maintain an independent or semi-independent living arrangement. The act, however, stopped short of authorizing such services and retained the goal of vocational rehabilitation.

The department has increasingly been seeking ways to develop and support prevocational and nonvocational services to the severely disabled. These services (generally described as "habilitation services" because they apply to persons who have not previously been employed) have grown rapidly during the last three years. Such services have been shown in the Governor's Budget under the program element of "other rehabilitation services" or under the Development of Community Rehabilitation Resources program, but they are not separately identified in the budget document. We recommend, therefore, that future budget presentations show each of these prevocational and nonvocational services under a separate program.

The major categories of habilitation services currently administered by the department are:

Services to the Blind. Traditionally, the department has provided counseling and training in independent living skills to the blind and deaf-blind with no potential for employment using counselor-teachers. Reader services have also been provided to blind individuals participating in

DEPARTMENT OF REHABILITATION—Continued

college programs which are not necessarily vocationally oriented. Program costs for these two elements for the budget year are $450,364.

Workshop Demonstration. The workshop demonstration project was mandated by Chapter 1440, Statutes of 1972 (SB 820) and by Chapter 1369, Statutes of 1976 (AB 3805). The purpose of this two-year project is to "demonstrate that . . . Adult disabled SSI/SSP recipients who have been found incapable of proceeding with self-support plans can be enabled to *retain* remunerative employment in sheltered workshops." The program operates by funding work-stations for clients in sheltered workshops. The projected program budget for fiscal year 1978–79 is $412,098.

Mentally Retarded in Private Institutions (MRPI). This is a joint project with the Department of Health that began as a demonstration project in 1976–77 and is continuing for another year through funding under the Public Works Employment Act (PWEA) Title II. Funds in the amount of $1.9 million were awarded to the Department of Health. The project purpose is to move mentally retarded persons from public institutions into private, nonprofit institutions which in turn attempt to help their clients make the transition to board and care, semi-independent community living situations.

Work Activity Program

We withhold recommendation on 15 requested new positions for the Work Activity program pending clarification of sheltered workshop needs and roles of the Departments of Rehabilitation and Health.

The department has entered into a tentative agreement with the Department of Health to administer a work activity program for approximately 1,000 developmentally disabled. the Department of Rehabilitation will administer this program in cooperation with three to five regional centers. The regional centers which have been supervising the work activity program were created to provide advocacy and case management services to the developmentally disabled. They were not designed to become service providers. The department's involvement is for the stated purpose of adding the basic elements of program planning, monitoring and evaluation to the workshop segment of Regional Center activities.

The Department of Developmental Services has requested $399,914 in Item 258(m) for this purpose. The budget of the Department of Rehabilitation requests 15 new positions to implement the program. We are withholding recommendation on these 15 positions and on Item 258(m) as a part of the larger issue of the relative roles of the two state departments in providing services to developmentally disabled clients through sheltered workshops.

II. SMALL BUSINESS AND JOB DEVELOPMENT

The Small Business and Job Development program consists of two elements, the Business Enterprise Program for the Blind (BEP) and Job Development.

For 1978–79, the budget proposes total expenditures of $3,473,607 to support the program. Of this amount, $1,220,011 is from federal funds and

$296,898 is from the General Fund. Another $1,948,593 is appropriated from federal and state Special Deposit Funds-Vending Stand Accounts. The state Vending Stand Account receives fees paid by BEP operators. Each operator is required to contribute, on a sliding scale depending on his income, a specified percentage of his net sales. These contributions are matched by funds from the Federal Vending Stand Account.

Blind Enterprise Program. The BEP is a self-support program available to blind clients selected by the department. It provides comprehensive training and supervision in the operation of vending stands, snack bars and cafeterias in public and private buildings. During the current budget year, the program has made a number of administrative improvements which should result in better placement of operators, more lucrative businesses and increased opportunity for new operators. The budget projects the opening of 25 to 30 new locations during the budget year.

Job Development. A new program element, job development, was added last year. This element appears in the program budget with BEP, but it is administratively separate and serves individuals with all types of disabilities, not just the blind.

The job development element consists of four loosely related components. One is designed to help clients establish their own businesses. A second 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.

Through these job development efforts, a number of opportunities for placement in state and local government have been provided to the disabled. Efforts are also being initiated to develop a mini-complex of business shops in the Los Angeles area which would be used to give nonblind disabled clients the opportunity to become self-employed. Unlike BEP, however, these businesses are being designed to move operators (at the end of three years experience) from the state-supported enterprise into an independent business. Thus, it is hoped that the state-developed businesses will become training centers developing the capacity of the disabled to become independent entrepreneurs.

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 1978–79 fiscal year the budget proposes a total expenditure of $3,743,593, of which $3,505,523 are federal funds and $229,219 are from the

General Fund. An additional $8,851 are received as reimbursements.

The Governor's Budget identifies two new activities in this program, the State Procurement program and the implementation of Section 504 of the Rehabilitaton Act of 1973.

State Procurement Program. Chapter 959, Statutes of 1977, appropriated $30,000 to the department for the purpose of developing a program that will encourage the state and other public entities to purchase goods and services from rehabilitation facilities. The department plans to implement the project by contracting with an independent agency to promote and develop state and local procurement contracts. The department expects the program to become self-supporting in two years.

Section 504 Implementation. The federal Rehabilitation Act of 1973 contains Section 504 which is designed to provide disabled persons with full integration into normal participation in society, e.g., access to public transportation, housing, educational opportunities, public buildings etc. Any agency receiving federal grants or contracts must comply with this section. The department has applied for $475,000 in federal funds that would be used to provide technical assistance to public and private agencies concerning implementation of the 504 regulations. The budget proposes four new positions to carry out the program. We concur with the need for the four positions.

IV. 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 $10,108,020 to support this program in 1978–79, an increase of $113,336 over the current year. Under program budgeting concepts, the entire amount is charged to other programs.

Administrative Growth

We recommend the deletion of 11 proposed new positions in the administration program (Item 268) for a total savings of $165,462 (General Fund $33,092).

The 1978–79 budget proposes 16 new positions in the administration program. Four positions (three professionals and one clerical) are for the implementation of Section 504 of the Rehabilitation Act of 1973, and we recommend approval of them.

One personnel assistant is proposed to increase recruitment of disadvantaged minorities. The department's monthly trend report for November 1977, stated that the affirmative action hiring goal is not being met, and noted that the "gap continues to widen between the total Chicano goal and actual Chicano hires." On this basis, we concur with the authorization of a position to increase recruitment of disadvantaged minorities.

Four new positions in data processing (two staff services analysts, one rehabilitation counselor and one key data operator) are proposed to implement a new aspect of the expanding management information system. Since fiscal year 1975–76, nine new positions have been added to the data processing section (a 34 percent increase). We believe that the proposed workload can be absorbed by the currently authorized positions. Therefore, we recommend that these proposed positions be denied.

The remaining seven positions are clerical positions proposed for increased workload in accounting, mail and messenger services and contract and regulation activities. We recommend that these positions be denied because of what we consider to be an excess of central staff.

During the past two years, the administrative staff has increased significantly. In fiscal year 1975–76, 40 positions in the regional offices were transferred to central operations. With other changes that year, there was a net increase in central office staff of approximately 65 positions. Increases since then have added 35 positions for a total increase of approximately 100 positions. We believe that these increases are sufficient to absorb the projected workload without adding 11 additional positions requested in the budget for 1978–79.

Table 5 presents the requested new positions which we recommend be denied together with the salary savings resulting from the recommended action.

Table 5
Savings Resulting from Proposed Reduction of New Positions

Position Classification	*Number of Positions*	*Proposed salary*	*Staff benefits (26%)*	*Operating expenses and equipment*	*Estimated salary savings (4%)*	*Net savings*
Vocational rehabilitation counselor	1	$17,284	$4,494	$2,500	−$691	$23,587
Staff services analyst	2	24,954	6,488	5,000	−998	35,444
Key data operator	1	10,608	2,758	2,500	−424	15,442
Clerk typist II	4	34,848	9,061	10,000	−1,394	52,515
Clerk II	1	9,231	2,400	2,500	−369	13,762
Clerk I	1	8,244	2,143	2,500	−330	12,557
Special quality clerk	1	7,914	2,058	2,500	−317	12,155
Total	11	$113,083	$29,402	$27,500	−$4,523	$165,462
General Fund (20 percent)						$33,092
Federal funds (80 percent)						$132,370

Consultant and Professional Services

We recommend that the General Fund appropriation be reduced by $34,206 to correct overbudgeting for "consultant and professional services" (reduce Item 268).

In 1976–77, the department spent a total of $897,317 in consultant and professional fees. The budget proposes a total of $1,338,092 for such services for the 1978–79 fiscal year, an increase of $440,775, or 49 percent. An analysis of the department's base budget data indicates a beginning amount of $856,000 to which was added $251,000 for Section 504 implementation, $30,000 for job development projects, $30,000 for training projects,

DEPARTMENT OF REHABILITATION—Continued

$36,000 for increased medical consulting fees, $29,000 for increased dental consulting fees and approximately $106,000 for miscellaneous smaller items.

The Governor's Budget (line 56, page 679) states that "5.7 medical positions are proposed new in the budget year to replace services previously obtained under contractual services." However, the budget proposes an *increase* of $36,000 in medical consulting fees. We believe that the proposed increased medical and dental consulting fees, together with smaller miscellaneous increases, constitutes overbudgeting for consultant and professional services.

We recommend that the total budgeted for professional and consultant services consist of the (a) base amount of $856,000, (b) the $251,000 for Section 504 implementation, (c) $30,000 for job development projects, and (d) $30,000 for training of occupational specialists, for a total of $1,167,000. This would result in a reduction of $171,092, of which $34,206 is from the General Fund.

DEPARTMENT OF SOCIAL SERVICES

General Summary

Funds for the new Department of Social Services are contained in nine budget items and one control section of the 1978–79 Budget Bill as identified in Table 1. The department requests a total of $1,771,416,847 from the General Fund for fiscal year 1978–79.

Table 1
Department of Social Services
General Fund Requests for 1978–79

Budget Bill	*Purpose*	*Estimated 1977–78*	*Proposed 1978–79*	*Percent increase*
270	Departmental support	N/A	$28,930,400	N/A
Control Section				
32.5	Cash grants: AFDC	$622,737,000	673,149,800	+8.1%
271	Cash grants: aged, blind and disabled	733,659,900	831,575,800	+13.3
272	Special adult programs	5,642,100	6,214,500	+10.2
273	WIN child care	327,803	347,471	+6.0
274	Special social services programs	94,024,998	130,512,576	+38.8
275	Indo-Chinese refugee assistance program	0	3,019,900	+100.0
276	County administration	69,746,100	77,904,900	+11.7
277	Executive mandates	0	2,022,800	+100.0
278	Legislative mandates	17,768,000	17,738,700	−0.2

Department of Social Services
DEPARTMENTAL SUPPORT

Item 270 from the General Fund — Budget p. 687

Requested 1978–79	$28,930,400
Estimated 1977–78	N/A
Total recommended reduction	$197,182

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
Item 270	Department of Social Services Support	General	$28,912,400
Chapter 892, Statutes of 1977		General	18,000
			$28,930,400

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. Departmental Reorganization. Recommend Department of Benefit Payments submit a report to the Joint Legislative Budget Committee and the fiscal subcommittees and policy committees by April 1, 1978, which identifies proposed internal organization of the Department of Social Services.	598
2. Organization of Social Services Division. Recommend progam support functions of the Social Services Division be integrated with the support functions of the Department of Social Services.	599
3. Community Care Licensing. Recommend that the Department of Health report to the Joint Legislative Budget Committee and the fiscal subcommittees and policy committees by April 1, 1978, on community care caseload standards, and the return of licensing responsibilities by counties to the state.	602
4. *Control Section 32.5—AFDC Cash Grants. Reduce by $1,280,200.* Recommend Control Section 32.5 be reduced by $1,280,200 for the cost of proposed new regulations which have not yet been adopted or reviewed.	602
5. Federal Welfare Legislation. Recommend Department of Benefit Payments report to fiscal subcommittees during budget hearings on estimated impact on PL 95-216 and proposed expenditure of new federal funds.	604
6. *Special Social Services Program* (discussed in our analysis of Item 274). *Reduce by $197,182.* Recommend that Item 270 be reduced by $197,182 by deleting seven proposed new positions.	604
7. Evaluation Model. Withhold recommendation of four new	604

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positions pending receipt of Assembly Office of Research report.

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977, creates a new Department of Social Services effective July 1, 1978. This department will replace the Department of Benefit Payments as the single state agency responsible for supervising the administration of public social services supported by state funds and federal grants-in-aid. Specifically, the new department will retain the welfare operations function of the current Department of Benefit Payments and the disabity evaluation, community care licensing and social services functions currently administered by the Department of Health.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes $28,930,400 from the General Fund for support of the new Department of Social Services. Included in this total General Fund expenditure are amounts of $28,912,400 from this item and $18,000 from Chapter 892, Statutes of 1977 which provides funds for implementing pilot centers for victims of domestic violence. Total program expenditures, including federal funds and reimbursements, are projected at $86,920,219 for fiscal year 1978–79. Because of the creation of a new department and the transfer of various functions to it, we are unable to compare this amount to prior year expenditures.

Departmental Reorganization

We recommend that the Department of Benefit Payments submit a report to the Joint Legislative Budget Committee and the fiscal subcommittees and policy committees by April 1, 1978, which identifies the proposed internal organization of the new Department of Social Services.

The Department of Benefit Payments has undertaken a comprehensive study of alternative ways to organize the new Department of Social Services. In September 1977, a committee was established to prepare statements of the new department's mission and organizational philosophy. This committee was comprised of members of the Department of Benefit Payments' own planning committee as well as representatives from each of the programs which would be transferred to the new department.

The Department of Benefit Payments has also contacted various constituent, advocate and professional groups to obtain their input regarding the new departmental organization. The department is currently developing a timetable for receipt of these additional comments and suggestions. When this information is received, the Department of Benefit Payments will make a final decision regarding the internal organization of the new Department of Social Services. As of late January, the plan had not been prepared. We therefore recommend that the Department of Benefit Payments submit a report to the Joint Legislative Budget Committee and the fiscal and policy committees by April 1, 1978, which identifies the proposed internal organization of the new Department of Social Services.

Organization of the Social Services Division

We recommend that the program support functions of the Social Services Division be integrated with the support functions of the new Department of Social Services.

The Social Services Division as it is currently organized in the Department of Health has experienced serious difficulties in developing and implementing useful procedures for on-going planning, data collection, caseload estimates, program monitoring and program impact evaluation. As a result, we do not believe that the Social Services Division should be transferred to the new Department of Social Services without undergoing several organizational changes.

The experience and capability demonstrated by staff in the Department of Benefit Payments' Administration Division, Audit and Evaluation Division and Program Development Division could make significant contributions to improving these program activities. We therefore recommend that the program support functions of the Social Services Division including on-going planning, data collection, caseload estimates, resource allocations, and on-going program monitoring and program impact evaluation be integrated with the support functions of the new Department of Social Services.

Federal Welfare Reform

The U.S. Congress is currently considering two bills, HR 9030, and S 2084, entitled, "The Better Jobs and Income Act", which contain President Carter's plan for reforming the national welfare system. The U.S. House of Representatives has formed a special Subcommittee on Welfare Reform to review and revise HR 9030. After the subcommittee completes action on the bill it will be submitted to three main committees (Ways and Means, Agriculture. and Education and Labor) for further review. It is anticipated that these committees will make substantial revisions in the President's original proposal. As a result, we are unable to say how federal welfare reform will affect California or to make any recommendations for changes in California law at this time. A summary of the two major program components of the President's welfare reform proposal as it was originally submitted to the U.S. Congress follows:

Consolidated Cash Assistance Program. HR 9030 would replace the present federal AFDC, SSI/SSP and Food Stamp programs with a new Consolidated Cash Assistance program. The new program would cover existing categories of recipients as well as intact families, childless couples and single individuals. The proposed program would provide a national basic benefit and would encourage states such as California to continue current state supplements to the federal basic benefit level. The proposal would establish one benefit level for persons who are not expected to work and a lower benefit level for persons who are expected to work as an incentive to find a job. In addition, a portion of income earned by persons expected to work would be disregarded up to a certain level in order to encourage employment. Also included is an earned income tax credit mechanism designed to strengthen the work incentive and to provide tax relief to families with children.

DEPARTMENTAL SUPPORT—Continued

The federal government would have responsibility for administering the new cash assistance program and would fund 90 percent of the cost of the basic federal grants. The federal government would also administer and share in the cost of state supplements which meet federal eligibility requirements. Each state would be required to pay 10 percent of federal grant costs and would be responsible for the entire cost of administering and providing supplements which do not meet federal eligibility requirements. An example of the latter is the cost of providing supplements to those current recipients of AFCD and SSI who may have higher earnings than those allowed under the new program, but who would be protected against loss of present benefits by grandfathering provisions.

An Emergency Assistance program would be established under Title XX (Social Services) of the Social Security Act to provide payments for emergency subsistence needs of individuals not served by the new Cash Assistance program. California's emergency assistance allocation is estimated to be $111 million.

Employment Opportunities Program. An integral part of the Carter welfare reform proposal is the employment opportunities program which is designed to move people from public subsidy programs into private sector jobs. The employment opportunities program has two major parts, Job Search Assistance and Public Service Employment and Training.

The Job Search Assistance program would provide beneficiaries with job development and placement services such as these currently offered by the state employment service agencies (in California, the Employment Development Department).

The subsidized Public Service Employment and Training program would provide opportunities for beneficiaries to be placed in subsidized employment such as the Comprehensive Employment and Training Act (CETA) Titles II and VI now provide.

Beneficiaries who are designated as "required to work" would be obligated to participate in the employment opportunties program. First, in order to receive the full cash assistance to which they are entitled a mandatory participant would be required to seek employment in the private sector and to accept any available employment at the minimum wage or higher. If no unsubsidized employment were found, the participant would then be required to accept a public service job at minimum wage.

Major Concerns. The President's welfare proposal has been reviewed by a number of state and national welfare program providers and organizations. Below is a summary of some of the problem areas which have been identified.

1. State responsibilities would be limited to intake and direct client contact functions in the cash assistance program. As a result, the state would have to deal directly with recipients without having any control over the program or ability to respond to recipients' problems.

2. The proposal does not identify how the cash assistance program is to be integrated with the Medi-Cal and social services programs. It is anticipated that HR 9030 could create significant additional demands on

these services without providing additional money for their support.

3. The federal allocation for emergency needs is probably inadequate to cover requests for emergency funds and will be reduced in subsequent years.

4. The proposal fails to include a federal cost-of-living adjustment in benefit levels.

5. The proposal would create a complex federal/state funding relationship and would result in a fragmented administrative structure. The federal government would administer the basic cash assistance program, while the state would retain responsibility for administering special supplemental payments for non-federally eligible welfare recipients, emergency assistance, social services and Medi-Cal.

6. The measure does not address the problem of economic development. Unless private jobs are available, no employment training and placement system can succeed.

7. The requirement that participants accept jobs at minimum wage raises problems with labor unions, and is in conflict with other federal employment programs, such as the Youth Employment and Development program, which mandate that prevailing wages be paid to public service workers.

8. The proposal leaves in question the relationship between the state employment services agencies and CETA prime sponsors. By indicating that the prime sponsors would be eligible to provide what are now employment services responsibilities, the state's role is brought into question.

9. The incentives designed to encourage a beneficiary to obtain and maintain a job in the private sector need to be reworked. As it now stands, a participant might actually lose net income by taking a private sector job. Also, no financial assistance is provided that would enable the participant to seek work during his mandatory job search effort. This may severely hamper his search.

10. There is much emphasis on employment but almost no emphasis on training without which many of the beneficiaries may not be able to compete for employment.

11. The level of fiscal relief projected by the proposal is not likely to materialize. A staff analysis of the proposal has been prepared by the Department of Benefit Payments and the Employment Development Department dated October 31, 1977, and contains a cost estimate of the proposal's impact on California. This estimate is based on a comparison of current state welfare programs and an approximation of current programs under HR 9030 and projects an increased cost to the state and counties of $348 million per year.

According to the department analysis, this cost increase is due to the addition of 1.5 million working poor to the cash assistance program, increased emergency assistance payments, Public Service Employment minimum wage supplements, increased Medi-Cal administrative costs and the grandfathering of those AFDC and SSI/SSP recipients who would no longer be eligible for the federal program. Not included are the increased Medi-Cal program costs and increased administrative and program costs for the Social Services program which could be substantial. These esti-

DEPARTMENTAL SUPPORT—Continued

mates are likely to change depending on action taken by the congressional committees.

Community Care Licensing Program

We recommend that the Department of Health report to the Joint Legislative Budget Committee and appropriate policy and fiscal subcommittees committees by April 1, 1978 on community care evaluation caseload standards, and the return of licensing responsibilities by counties to the state.

The budget proposes $8,658,292 from the General Fund for the Community Care Licensing Program, and $1,500,000 in Federal Title XX Funds. Of the General Fund amount, $8,158,292 is in this item (support) and $500,000 is in Item 274 (Special Social Services Programs) to match the Federal Title XX monies of that item. This program with a proposed 224.7 positions is currently within the Department of Health's Licensing and Certification Division.

The Community Care Licensing Program is responsible for regulating approximately 50,000 day care centers, 24-hour residential facilities, preschools, and similar types of community care facilities. These facilities are evaluated by state personnel in regional offices, and by county programs operating under contract with the state. The counties handle about 80 percent of the workload.

The Community Care Licensing Program has had difficulty fulfilling its mandate over the past year. Most of the program's district offices failed to meet state mandated annual evaluation requirements. This problem stemmed from an abnormally high staff vacancy rate, inappropriate caseload standards for facility evaluators, and county programs returning licensing responsibility to the state. The program has now filled most of its positions and is working on caseload standards. We recommend that particular attention be directed to the problem of maintaining full staffing and that the Department of Health report on the progress in developing new caseload standards and on the current status and probable trend over the next year on the return of licensing responsibilities to the state.

AFDC Cash Grants

We recommend a General Fund reduction of $1,280,200 from Control Section 32.5 pending the issuance and review of new regulations.

Control Section 32.5. 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 available funds to a specified amount and permits the Director of Finance to increase the expenditure limit in order to provide for unexpected caseload growth or other changes which increase aid payment expenditures.

The budget proposes $673,149,800 in Section 32.5, which is $50,412,800 or 8.1 percent more than is estimated to be expended in the current year. In addition to these funds, there are state costs for AFDC grants of

$17,768,000 in the current year and $17,924,600 in the budget year for legislative and executive mandated costs budgeted in Items 277 and 278. Thus the total General Fund cost for AFDC grants in fiscal year 1978–79 is estimated to be $691,074,400 which is an increase of $50,569,400 or 7.9 percent over the amount estimated to be expended in the current year.

AFDC Caseloads and Cost Trends. The Governor's Budget projects that the AFDC caseload will decline by 0.2 percent in 1977–78 as shown in Table 1.

Table 1
1978–79 Governor's Budget
AFDC Average Monthly Caseload (Person Count)

	1977–78	*1978–79*	*Change from 1977–78*	*Percentage change*
AFDC Family Group	1,271,200	1,272,747	+1,547	+0.1%
AFDC Unemployed	172,908	168,717	−4,191	−2.4
AFDC-Foster Children	26,558	26,558	0	0
	1,470,666	1,468,022	−2,644	−0.2%

The net AFDC General Fund cost increase of $50.4 million reflected in Section 32.5 includes $56.8 million in increased costs and $6.4 million in offset savings. The major cost increases include: a) an annual AFDC cost-of-living adjustment ($45.8 million), b) an increase in payment standards resulting from Chapter 348, Statutes of 1976 ($3.7 million), c) phase-out of the federal special unemployment assistance program and the federal extended unemployment insurance program ($0.8 million), d) increase in child support payments ($2.8 million), e) the cost of new regulations implemented as a result of federal mandates, within the authority of existing state law, or as a result of an out-of-court settlement which the Legislature has previously reviewed ($2.6 million) and f) the result of a recent court case which ruled that the department's prior-month budgeting system for calculating AFDC payments is inadequate ($1.1 million).

These costs will be offset by savings resulting from: a) a reduction in AFDC caseload ($4.3 million savings), b) an increase in OASDI benefits ($0.8 million savings) and c) increases in the minimum wage ($1.3 million savings).

Proposed Regulations. The budget contains a total General Fund expenditure of $1,280,200 for proposed regulations resulting from the *Garcia vs. Swoap* case. Under existing regulations the department requires a recipient to report income received in the prior month as a basis for determining the grant level to be received in the next month. However, the court has ruled that the department's prior-month budgeting system is inadequate and has required the department to submit revised regulations for its approval. The modified regulations would require that should a change in income occur to create a hardship, a supplemental payment would be issued upon the request of the recipient. The department estimates these revised regulations will be submitted to the court by February 1, 1978, but it is also pursuing an appeal to the U.S. Supreme Court.

Because these regulations have not yet been issued, and because the

DEPARTMENTAL SUPPORT—Continued

Legislature has not yet had an opportunity to review the issues raised by the court's decision, we recommend that funds appropriated through Section 32.5 be reduced by $1,280,200.

New Federal Welfare Legislation

We recommend that the Department of Benefit Payments report to the fiscal subcommittees during budget hearings on estimated impact of PL 95-216 and proposed expenditures of new federal funds.

On December 15, 1977, Congress enacted PL 95-216 (HR 1346) which allocates $187 million to states and counties for fiscal relief of state and local welfare costs. State allocations are to be based on a two-part estimate: 1) 50 percent based on each state's share of total AFDC expenditures for December 1976, and 2) 50 percent based on the general revenue sharing formula. The law requires the states to pass-on a portion of these funds to political subdivisions. Based on a preliminary determination, it is estimated that California will receive approximately $25.4 million in additional federal funds. Federal funds will be payable to the states for the period October 1, 1977 to March 31, 1978.

In addition, the law changes fiscal incentives for the AFDC quality control program, changes procedures for obtaining information from federal wage records, expands the authority for state demonstration programs, and changes procedures for reimbursing erroneous state supplementary payments.

Because these funds were only recently approved by Congress, they are not reflected in the Governor's Budget. We therefore recommend that the Department of Benefit Payments report to the fiscal committees during budget hearings on the estimated impact of the new federal legislation and proposed expenditure of new funds.

Recommendations Discussed in Item 274.

We have recommended that Item 270 be reduced by $197,182 by deleting seven proposed new positions for social services program monitoring.

We have also withheld recommendation on four proposed positions for development of a social services evaluation model pending receipt and review of a report by the Assembly Office of Research.

These recommendations are discussed in Item 274, Special Social Services program, because the majority of funds for the program are contained in that item. However, these reductions should be made in this departmental support item.

Department of Social Services

STATE SUPPLEMENTARY PROGRAM FOR AGED, BLIND AND DISABLED

Item 271 from the General Fund — Budget p. 690

Requested 1978–79	$831,575,800
Estimated 1977–78	733,659,900
Actual 1976–77	676,632,394
Requested increase $97,915,900 (13.3 percent)	
Total recommended reduction	None

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 recommend approval.

The budget proposes a General Fund appropriation of $831,575,800 for the state cost of aid payments to aged, blind, and disabled recipients for fiscal year 1978–79. This is an increase of $97,915,900, or 13.3 percent, over the amount estimated for the current year.

The major reasons for the $97.9 million increase in the cost of the SSP program are as follows: (a) an automatic annual cost-of-living adjustment on the State Supplementary Payment provided to recipients (net state cost of $67.5 million) (b) a pass-on of federal cost-of-living increases in the federal SSI benefit pursuant to Chapter 348, Statutes of 1976 (net state cost of $23.9 million), and (c) an increase in caseload ($6.4 million). The caseload is estimated at 714,641 for fiscal year 1978–79, which is an increase of 21,857, or 3.2 percent, over the current year.

Payment standards for the SSP program are estimated to increase on July 1, 1978, as follows: (a) from $296 per month to $320 per month for aged and disabled individuals, and (b) from $334 per month to $361 per month for blind individuals.

We recommend approval of this amount with the understanding that the appropriation is subject to adjustment when the Department of Finance submits the May revision of expenditures to the Legislature.

STATE SUPPLEMENTARY PROGRAM FOR AGED, BLIND, DISABLED—Continued

Federal Revenue-Sharing Funds

Budget Bill language in Item 409 specifies that $275 million shall be appropriated from the Federal Revenue-Sharing Fund to the General Fund and transferred to Item 271 to partially fund the SSP program. Language in Item 271 specifies that the revenue-sharing money is to be expended prior to the expenditure of the remaining $556,575,800. For the four fiscal years prior to the 1978–79 fiscal year, federal revenue-sharing funds were appropriated to the State School Fund for public school apportionments. In fiscal year 1973–74, a portion of the federal revenue-sharing funds were appropriated for welfare costs of the SSP program.

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 272 from the General Fund — Budget p. 691

Requested 1978–79	$6,214,500
Estimated 1977–78	5,642,100
Actual 1976–77	4,837,452
Requested increase $572,400 (10.1 percent)	
Total recommended reduction	None

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
272(a)	Special Circumstances	General	$3,222,300
272(b)	Special Benefits	General	108,100
272(c)	Aid to Potentially Self-Supporting Blind	General	1,031,700
272(d)	Emergency Payments	General	1,852,400
			$6,214,500

GENERAL PROGRAM STATEMENT

Chapter 1216, Statutes of 1973, (AB 134) established a program to provide for the emergency and special needs of SSI/SSP recipients. The program's special allowances, paid entirely from the General Fund, are administered by the county welfare departments.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a General Fund appropriation of $6,214,500 which is an increase of $572,400 or 10.1 percent over the current year. We recommend approval of this amount with the understanding that the appropriation is subject to adjustment when the Department of Finance submits the May revision of expenditures.

Special Circumstances (Item 272(a))

The special circumstances program provides 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.

The budget proposes $3,222,300 for fiscal year 1978–79 which is an increase of $300,800 or 10.3 percent over the current year. The primary reasons for this increase is a cost-of-living adjustment as well as the cost of new regulations implemented by the Department of Benefit Payments on June 21, 1977 in response to a court case. The new regulations remove the requirement that recipients liquidate all available income before qualifying for a payment, increase the maximum allowance for certain categories of special circumstances, and create additional categories of allowances.

Special Benefits (Item 272(b))

The special benefits program is for blind SSP recipients who have guide dogs. This program provides a special monthly allowance to cover the cost of dog food. The budget proposes $108,100 for fiscal year 1978–79 which is an increase of $21,900 or 25.4 percent over the current year. The primary reason for this increase is Chapter 1206, Statutes of 1977, which increased the monthly allowance from $18 to $30 effective January 1, 1978.

Aid to Potentially Self-Supporting Blind (Item 272(c))

The Aid to Potentially Self-Supporting Blind (APSB) program provides payments to blind recipients who earn more income than is allowed under the basic SSI/SSP program. The purpose of the program is to provide an incentive to these individuals to enable them to become economically self-supporting. The budget proposes $1,031,700 for fiscal year 1978–79 which is an increase of $218,500 or 26.9 percent over the current year. The reason for this increase is an expanded caseload as well as a cost of living adjustment for payment standards. The program is estimated to have an average monthly caseload of 252 recipients in fiscal year 1978–79.

Emergency Payments (Uncollectible Loans) (Item 272(d))

Chapter 1216, Statutes of 1973, mandates 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. The budget proposes $1,852,400 for fiscal year 1978–79 which is an increase of $31,200 or 1.7 percent over the current year.

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Department of Social Services
WORK INCENTIVE PROGRAM—CHILD CARE

Item 273 from the General Fund — Budget p. 693

Requested 1978–79	$347,471
Estimated 1977–78	327,803
Actual 1976–77	312,193
Requested increase $19,668 (6.0 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The new Department of Social Services will have responsibility for providing nonemployment-related social services to welfare recipients registered in the Work Incentive (WIN) program. This responsibility was transferred from the Employment Development Department to the Department of Social Services' predecessor agency, the Department of Benefit Payments, in February 1976. The primary purchased service in the WIN program is child day care.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes a General Fund expenditure of $347,-471 for WIN child care for fiscal year 1978–79, which is an increase of $19,668 or 6.0 percent more than is estimated to be expended during the current fiscal year. This amount is to be matched with $4,632,949 in federal funds and $167,301 in county funds for a total program expenditure in fiscal year 1978–79 of $5,147,721. This is a total program increase of $288,-380, or 5.9 percent, over the amount estimated to be expended in the current year.

Under existing federal and state law, it is possible to reimburse child care expenses for WIN enrollees through AFDC funds, WIN funds, or social services funds. The Department of Benefit Payments' current policy is to encourage county welfare departments to charge the WIN program for child care whenever possible because of the higher federal sharing ratio for WIN child care costs.

Child Care Report

It is estimated that subsidized child care is provided annually to between 60,000 and 80,000 children in California directly as a work-related welfare expense through the Aid to Famililes with Dependent Children (AFDC) program and to approximately 5,100 children through the Work Incentive (WIN) program. However, there is presently little statistical or evaluative data for these child care programs. The 1977–78 Budget Act includes supplemental language requiring the Department of Benefit Payments and the Department of Education to develop procedures for annually reporting comparable statistical information. This information is aimed at supplying the Legislature with a better understanding of the nature of welfare-related child care and a partial comparison of such child care with subsidized child care provided through the educational system. The information required by the Legislature includes: (a) characteristics of individuals served, (b) types of child care used, (c) child care costs, and (d) total annual child care expenditures.

The Department of Benefit Payments has indicated that its report will be submitted to the Legislature by March 1, 1978. We will review the data in the report and compare it with information contained in the Department of Education's report which has already been submitted to the Legislature.

Department of Social Services

SPECIAL SOCIAL SERVICES PROGRAMS

Item 274 from the General Fund — Budget p. 694

Requested 1978–79	$130,512,576
Estimated 1977–78	94,024,998[a]
Actual 1976–77	45,382,710
Requested increase $36,487,578 (38.8 percent)	
Total recommended reduction	$38,240,472

[a] Excludes $1,200,000 appropriated by Welfare and Institutions Code Section 16151 for the maternity care program.

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
274	Special Social Services Program	General	$130,387,576
Chapter 892, Statutes of 1977		General	125,000
			$130,512,576

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. New Federal Legislation. Recommend Department of Finance report to the fiscal subcommittees during budget hearings regarding the proposed use of $19.88 million in federal funds appropriated by PL 95-171. — 614
2. *Other County Social Services Program.*
   (a) *Reduce by $22,132,591.* Recommend reduction of $22,132,591 for state funding of program. — 615
   (b) Recommend the Department of Social Services report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by July 1, 1978 on procedures to assure Budget Act language requirements for county matching funds are implemented in the event the Legislature approves a General Fund appropriation. — 616

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

3. *Homemaker/Chore Program.*
   (a) *Reduce by $15,907,881.* Recommend reduction of $15,907,881 for General Fund program augmentation. 617
   (b) Recommend the Social Services Division report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by April 1, 1978 on procedures to reduce staff turnover in the In-Home Supportive Services Branch. 619
   (c) Recommend the Department of Social Services report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees on a biannual basis beginning July 1, 1978 on the state management of the Homemaker/Chore program. 620
4. *Demonstration Programs. Reduce by $200,000.* Recommend reduction of $200,000 for demonstration programs. 621
5. Maternity Care Program. Recommend the Department of Health submit a plan for implementation of the maternity care program to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by April 1, 1978 which identifies procedures for assuring that estimated expenditures do not exceed funds appropriated. 621
6. Management Information System. Recommend the Department of Social Services report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by December 1, 1978, on its progress in (a) implementing a comprehensive data system for the Homemaker/Chore program, and (b) studying the feasibility of a statewide data system for all social services. 622
7. *Program Monitoring and Review.*
   (a) *Recommend Item 270 be reduced by $197,182.* Recommend deletion of seven proposed positions. 623
   (b) Recommend the Department of Social Services examine the current program review and monitoring operations for the Social Services program and submit a report of its findings and recommendations to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by December 1, 1978. 623
8. Evaluation Model. Withhold recommendation of funds budgeted in Item 270 pending receipt and review of Assembly Office of Research report. 624
9. Programs for the Elderly. Recommend the Social Services Division designate two professional staff to participate in a special planning group in the Department of Aging no later than June 1, 1978. 625

GENERAL PROGRAM STATEMENT

Beginning July 1, 1978 the Social Services program will be administered by the new Department of Social Services. This department is designated as the single state agency for purposes of receiving federal social services funds from Title XX of the Social Security Act. The goals of the Title XX social services program as defined by federal law include self-support, self-sufficiency, protection of children and adults, deinstitutionalization and institutionalization where necessary.

Title XX Services. Federal regulations require that at least three services be provided for SSI/SSP recipients and that at least one service be directed at each of the five federal program goals. The only specific service mandated by federal law is family planning for AFDC recipients. However, state law mandates that counties provide the following services: (1) information and referral, (2) protective services for children, (3) protective services for adults, (4) out-of-home care for children, (5) out-of-home care for adults, (6) child day care services, (7) health-related services, (8) family planning, (9) in-home supportive (homemaker/chore) services, and (10) employment-related services. In addition, state law permits counties to provide any of 14 additional special services.

Of the 10 mandated services, four are required to be available to all persons: information and referral, protective services for children, protective services for adults, and court-ordered child foster care. Other services are provided to individuals based on their participation in various income maintenance programs including SSI/SSP, AFDC, and the Medically Needy Only portion of the Medi-Cal program. Federal regulations require that 50 percent of Title XX funds be used for such cash grant recipients. In addition, the state requires that some of the services be provided to individuals whose annual gross income does not exceed 80 percent of California's adjusted median income for a family of four.

Title XX social services are administered or provided by the 58 county welfare departments, the state Department of Social Services, the Department of Health Services (family planning), the Department of Mental Health (community rehabilitation), the Department of Developmental Services (regional centers), the Department of Rehabilitation (blind counselors), and the Department of Education (child development).

Title XX Program Funding. In 1972, Congress enacted legislation establishing a cap of $2.5 billion for federal Title XX funds to be distributed to the states on the basis of population. California's share for fiscal year 1978–79 is $248,500,000. In addition, $5 million in unallocated Title XX funds are available from fiscal year 1977–78. As a result, a total of $253,500,000 in federal Title XX funds are available for the budget year.

Federal law requires that funds be matched on the basis of 75 percent federal funds and 25 percent state and county funds. As a result of the federal funding cap, California is now providing General Fund support for social services which is far in excess of the 25 percent required match. For fiscal year 1978–79, General Fund expenditures for social services programs will be more than $67 million above the amount required by the 25 percent match.

In addition, Chapter 1216, Statutes of 1973, requires that at least 66

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

percent of federal Title XX funds be allocated to the counties. The 1978–79 budget proposes that $193,705,711 or 76.4 percent of Title XX funds be allocated to counties. The remaining federal funds are allocated to state programs, primarily child care and programs for the mentally and developmentally disabled.

Of the $193,705,711 allocated to the counties, $124,454,128 is allocated for the Other County Social Services program and $69,251,583 is allocated for the Homemaker/Chore program. Prior to fiscal year 1976–77, the counties provided the 25 percent match for federal funds in the Other County

Table 1
Proposed General Fund Budget Increases for Social Services Program 1978–79

	Cost	*Total*
A. Budget Base		$94,024,998
B. Budget Adjustments		
1. Other County Social Services		
a. Replacement of one-time fifth-quarter federal funds available in fiscal year 1977–78	$11,247,779	
b. Six percent cost-of-living for total program support	8,297,362	
		$19,545,141
2. Homemaker/Chore		
a. Replacement of one-time federal funds available from PL 94-401 (HR 12455) in fiscal year 1977–78	4,544,256	
b. Caseload increase	9,820,119	
c. Increase in average hours per case	4,446,331	
d. Increase in minimum wage standard and six percent cost-of-living for county employees	8,183,432	
e. Federal fund adjustment	163,743	
f. Federal Title XX funds available from fiscal year 1977–78	−5,000,000	
g. Federal Title XX funds unallocated in 1977–78 base	−5,000,000	
h. Increase in federal Title XX yearly allocation to reflect population adjustment	−1,250,000	
		$15,907,881
3. Adoptions		
a. Reduction in funds previously appropriated from Chapter 363, Statutes of 1975	−64,000	
b. Six percent cost of living	923,556	
		$859,556
4. Community Care Facilities Evaluation		
a. General Fund match for federal Title XX funds previously budgeted in Department of Health support item	500,000	
		$500,000
5. Demonstration Programs		
a. Continuation of pilot program previously funded by Chapter 977, Statutes of 1976	1,600,000	
b. Appropriation from Chapter 892, Statutes of 1977	125,000	
c. Reduction in funds appropriated from other legislation	−2,050,000	
		$−325,000
Total, Budget Increases		$36,487,578
Proposed Total General Fund, Item 274 and Chapter 892, Statutes of 1977		$130,512,576

Social Services program. However, beginning in 1976–77, the state has contributed an increasing amount of funds for program support. Chapter 1216, Statutes of 1973, requires that the state provide the 25 percent match for federal funds allocated to county homemaker/chore programs.

Other Social Services Programs. The Social Services program also includes $3.4 million in federal Title IVB funds for child protective services for which the counties provide a 25 percent match, and the $16.3 million adoptions program which is 100 percent state funded.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes $130,512,576 from the General Fund for special social services programs. Included in the total General Fund expenditure are amounts of $130,387,576 from this item and $125,000 from Chapter 892, Statutes of 1977 for centers for victims of domestic violence. These funds are allocated to the following five program areas: the Other County Social Services program, the Homemaker/Chore program, the Adoptions program, community care facilities evaluation, and demonstration programs. The proposed General Fund appropriation is $36,487,578, or 38.8 percent, more than is estimated to be expended in the current year. Table 1 identifies the major components of this cost increase and offset savings.

Table 2
Total Proposed Expenditures for Social Services Programs
Fiscal Year 1978–79

	General Fund in Item 274	*General Fund in other items*	*Federal funds in Item 274*	*County funds*	*Total*
Other County Social Services	$22,132,591	—	$124,454,128	$48,862,239	$195,448,958
Homemaker/Chore	89,588,835	—	69,251,583	—	158,840,418
Adoptions	16,316,150	—	—	—	16,316,150
Facilities Evaluation	500,000	—	1,500,000	—	2,000,000
Demonstration Programs	1,975,000[a]	—	—	—	1,975,000
Child Development (Department of Education)	—	$10,671,314	32,013,942	—	42,685,256
Regional Centers (Department of Developmental Services)	—	1,753,334	5,260,002	—	7,013,336
Community Rehabilitation (Department of Mental Health)	—	4,295,179	12,885,537	—	17,180,716
Blind Counselors (Department of Rehabilitation)	—	35,000	105,000	—	140,000
Family Planning (Department of Health Services)	—	444,444	4,000,000	—	4,444,444
Child Protective Services	—	—	3,400,000[b]	1,133,333	4,533,333
Totals	$130,512,576	$17,199,271	$252,870,192	$49,995,572	$450,577,611

[a] Includes $125,000 appropriated from Chapter 892, Statutes of 1977.
[b] Federal Title IV-B funds for child protective services.

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

Table 2 identifies total proposed expenditures for social services programs for fiscal year 1978–79. These include five programs which are entirely funded in Item 274 and five programs for which federal funds are budgeted in Item 274 and matching state funds are budgeted in other items. Item 274 also contains an appropriation of $3,400,000 in federal Title IVB funds for protective services for children. These funds are matched on the basis of 75 percent federal and 25 percent county with no state participation. County funds are estimated to be $1,133,333 for a total program expenditure of $4,533,333 in fiscal year 1978–79.

Total expenditures for programs supported in Item 274 including state, federal and county funds are estimated to be $433,378,340 for fiscal year 1978–79. This is an increase of $36,220,556 or 9.1 percent over estimated current year expenditures.

New Federal Legislation

We recommend that the Department of Finance report to the fiscal subcommittees during budget hearings regarding the proposed use of $19.88 million in federal funds appropriated by PL 95-171.

In calendar year 1976, $23.7 million in federal funds appropriated by PL 94-401 (HR 12455) was available to California for child care services for the 15-month period, July 1976–September 1977. These funds were appropriated to help states meet the federal Interagency Day Care Requirements for child care services. Because California already met federal day care staffing requirements, a portion of these funds were used to replace existing federal Title XX funds allocated to child care. These Title XX funds were in turn redirected to other social service programs including homemaker/chore.

On November 12, 1977, Congress enacted PL 95-171 (HR 3387) which extends the provisions of PL 94-401 and allocates an additional $19.88 million in federal funds to California for the period October 1, 1977 to September 30, 1978. The Governor's Budget does not indicate how these funds are to be expended. It is necessary that the Legislature be informed of the administration's proposal because the proposed use of these funds will affect decisions relating to the funding of other social service programs. It should be noted that Budget Act language for fiscal year 1977–78 and proposed Budget Bill language for fiscal year 1978–79 state that any additional Title XX funds which become available to the state shall be used in lieu of the General Fund appropriation for other county social services. We therefore recommend that the Department of Finance report to the fiscal subcommittees during budget hearings regarding the proposed use of $19.88 million in federal funds appropriated by PL 95-171.

OTHER COUNTY SOCIAL SERVICES PROGRAM

Prior Year Funding

The Other County Social Services program includes Title XX services other than homemaker/chore services provided by county welfare departments. These services 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.

Prior to fiscal year 1976–77, other county social services were funded on the basis of 75 percent federal Title XX funds and 25 percent county funds with no state participation. Beginning in fiscal year 1974–75, the Department of Health began a four-year phase-in of a method of allocating federal funds to counties based on the number of public assistance recipients in the counties. The old method based on prior year expenditures was to be phased out over a four-year period. The Budget Act of 1976 appropriated, for the first time, $6.8 million from the General Fund to support other county social services. These funds were allocated so that each county received an amount equal to its highest allocation during the first three years of phase-in of the new allocation formula. During fiscal year 1976–77, the state received an additional $5 million in one-time federal Title XX funds available from the fifth quarter of the federal fiscal year. These funds were allocated to the Other County Social Services program, and thus $5 million of the appropriated $6.8 million reverted to the General Fund.

The Budget Act of 1977 appropriated $13,835,229 from the General Fund to provide a six percent cost of living for the federal and General Fund share of program support. The new allocation system based on number of public assistance recipients was discontinued, and funds were distributed to each county in an amount sufficient to provide a cost of living increase for prior year expenditures. During the current fiscal year, an additional $11.2 million in fifth-quarter federal funds again became available. Because Budget Act language required the state to use any new federal Title XX funds in lieu of General Fund support for other county social services, the $11.2 million in federal funds were allocated to the program, and an identical amount is proposed to revert to the General Fund.

Governor's Budget Proposal

We recommend a General Fund reduction of $22,132,591 for the Other County Social Services program.

The budget proposes an appropriation of $22,132,591 for the Other County Social Services program which is an increase of $19,545,141 or 855.4 percent above current year expenditures. The General Fund increase includes the following cost components: (a) $11,247,779 in lieu of the one-time federal funds available during fiscal year 1977–78, and (b) $8,297,362 to provide a six percent cost-of-living for both the state and federal portion of program support. Total program support is estimated at $195,448,958 which includes $124,454,128 from federal Title XX funds and $48,862,239 from county matching funds.

If the federal Title XX funds remain capped, and if the state continues to provide a cost-of-living for both the federal and state share of program support, the annual level of state expenditures can be expected to rise to over $70 million by 1983–84.

We have a number of concerns about appropriating state funds for this program. First, there is no mechanism to assure that funds are allocated to those counties with the greatest need, for example, those with the highest number of public assistance recipients. As a result, there is significant variation in the funds allocated to the counties. Second, the Department of Health has not established adequate guidelines to assure that counties are providing a minimum standard of services. Instead, these determinations are left to the individual counties. Third, the department is unable to identify how the proposed funds will actually be spent for the various mandated and optional social services because an adequate planning and allocation procedure has not been implemented. Finally, there are no data available to measure the effectiveness of the program.

As a result, we recommend a General Fund reduction of $22,132,591 for the Other County Social Services program.

County Funds

In the event that the Legislature approves a General Fund appropriation for other county social services, we recommend that the Department of Social Services report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by July 1, 1978 on procedures to assure that Budget Act language requirements for county matching funds are implemented.

The Legislature added language to the Budget Act of 1977 which required that any allocation of funds appropriated for Other County Social Services be available when matched by 25 percent in increased county program funds above the level in existence during fiscal year 1976–77. The intent of such language was to insure that counties would provide a match for additional General Fund support from new county monies.

In a letter dated July 25, 1977, the Department of Health instructed counties to match federal and state monies for other county social services with 25 percent county funds. The department did not indicate that the match must be provided from new county funds. As a result, counties could opt to provide the 25 percent match from existing county overmatch, without having to increase the level of county support. We believe this action was contrary to the intent of the Legislature.

The 1978–79 Budget Bill again contains language that would require increased allocations for other county social services to be matched by 25 percent in increased county program funds above the level in existence during the 1977–78 fiscal year. In the event that the Legislature approves a General Fund appropriation for other county social services, we recommend that the Department of Social Services report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees on procedures for assuring that the intent of this language is met in fiscal year 1978–79.

HOMEMAKER/CHORE PROGRAM

Program Description

The Homemaker/Chore program provides domestic and personal care services to approximately 73,000 aged, blind, and disabled low-income individuals. County welfare departments administer the program, and services may be provided either directly by county employees, by agencies under contract with the counties, or by providers hired directly by the recipient.

Section 12304 of the Welfare and Institutions Code defines a severely impaired recipient as one who requires 20 or more hours of service per week to carry out specified functions of daily living. The program defines a nonseverely impaired recipient as one who receives less than 20 hours of service per week. As of July 1, 1977, the maximum monthly allowance for severely impaired clients was $577 and the maximum allowance for nonseverely impaired clients was $400.

Section 12306 of the Welfare and Institutions Code requires the state to match available federal Title XX funds for the cost of the program. The federal matching basis is 75 percent federal funds and 25 percent state funds. However, beginning in fiscal year 1974–75, the state has provided increased state funds while federal funds have remained the same. County administrative costs for the Homemaker/Chore program are included in the cost of the Other County Social Services program which is supported from federal, state and county funds. Beginning in fiscal year 1977–78, homemaker/chore funds are allocated to counties on the basis of individual county caseload growth, average hours per case, and average cost per case.

Table 4 shows the growth in the Homemaker/Chore program from fiscal year 1974–75 to 1978–79.

Table 4
Total Expenditures in Homemaker/Chore Program
Fiscal Year 1974–75 to 1978–79

Fiscal Year	*General Fund*	*Federal Funds*	*Total*	*Annual Percent Increase*
1974–75	$25,927,000	$52,750,002	$78,677,002	-
1975–76	44,953,000	51,415,152	96,368,152	22.6%
1976–77	28,908,943	86,726,828	115,635,771	20.1
1977–78 (Estimated)	73,680,954	62,709,582	136,390,536	18.0
1978–79 (Budgeted)	89,588,835	69,251,583	158,840,418	16.5

Governor's Budget Proposal

We recommend a General Fund reduction of $15,907,881 for the Homemaker/Chore program since projected benefits resulting from this augmentation cannot be identified.

The Governor's Budget proposes a General Fund appropriation of $89,588,835 which is an increase of $15,907,881, or 21.6 percent above the current year estimated expenditure. Total program expenditures including federal funds are projected at $158,840,418 which is an increase of $22,449,882, or 16.5 percent over the total current year expenditure. The primary reasons for this $22.5 million increase are: (a) a projected 7.2 percent increase in caseload ($9.8 million), (b) an increase in average hours of service per client ($4.5 million), and (c) an increase in minimum wage standards and a six percent cost-of-living for county employees ($8.2 million).

A general goal of the program is to permit aged, blind and disabled low-income persons to remain in their own homes in lieu of institutionalization. Home care is often both more socially humane as well as more cost-efficient than placing such persons in an institution. It is evident that if no homemaker/chore services were provided, a certain number of persons would need to be institutionalized in out-of-home care facilities such as nursing homes or board and care facilities. However, it is not possible to identify the level of funding necessary to hold institutionalization to the minimum level feasible. Nor is it possible to identify what specific impact, if any, increased or decreased funding for homemaker/chore services has on admissions to such facilities. It is likely that some of those now receiving services would not be institutionalized even if the services were not provided. Moreover, in some cases the cost of providing homemaker/chore services, when added to an individual's SSI/SSP benefit payment, may exceed the cost to the state of providing services through an out-of-home care facility.

In addition, the program lacks uniform procedures for determining client eligibility and service needs, and lacks standards for monitoring program quality and costs.

We cannot recommend continuous General Fund augmentations to the Homemaker/Chore program until such time as the projected target populations or program benefits resulting from such augmentations are identified by the department. We therefore recommend a General Fund reduction of $15,907,881.

Homemaker/Chore Regulations

During fiscal committee hearings last year, the Department of Health projected that proposed new regulations for the Homemaker/Chore program would result in an annual General Fund *savings* of $16 to $23 million. The proposed homemaker/chore appropriation in the Governor's Budget for fiscal year 1977–78 was based on the assumption that such a savings would be realized. However, because the regulations had not yet been implemented, the Legislature added an additional $20 million to the budget. During the current year, a portion of these funds have reverted.

The Legislature also added language to the Budget Act of 1977 which prohibited homemaker/chore regulations with a fiscal impact greater than $500,000 from going into effect until the Chairman of the Joint Legislative Budget Committee, or his designee, has had at least 30 days to review them. On December 28, 1977, the chairman received a letter from the Director of Finance notifying him that the Department of Health planned to implement the new regulations after 30 days. The Director of Finance estimated that the revised regulations would result in an annual General Fund *cost* of $1,940,000 to $9,442,306, but indicated that it was not possible to confirm an exact cost estimate because of the lack of adequate program data.

It appears that these regulations, if promulgated, would have a major fiscal impact and would tend to obligate the state to a higher General Fund expenditure in the future. The Governor's Budget does not include funds to cover the cost of these proposed regulations.

The Vice-Chairman of the Joint Legislative Budget Committee has recommended that the Director of Finance ask the Department of Health to withhold implementation of these regulations at the end of the 30-day period to allow the fiscal committees of the Legislature an opportunity to review this matter. We did not receive the proposed regulations early enough for us to review them in this Analysis. We will prepare a supplemental analysis of the regulations for the budget hearings.

Program Activities

We recommend that the Social Services Division report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by April 1, 1978 on procedures to reduce staff turnover in the In-Home Supportive Services Branch.

Last year the Legislature approved continuation of 26.5 positions for the In-Home Supportive Services (IHSS) branch which had been established during fiscal year 1976–77 pursuant to Section 28 of the Budget Act of 1976. This brought total staffing for the IHSS branch to 35.5 positions as of July 1, 1977. Subsequent to that time, six positions whose primary functions were related to program support—specifically, homemaker/chore evaluation and data collection—were informally transferred to the appropriate program support branches within the Social Services Division. This transfer was in accordance with legislative intent expressed at the time the positions were approved.

From February to May 1977, staff in the IHSS branch conducted a review of programs in the 58 counties. This review identified a number of problems among the various counties including (a) inconsistencies in assessing level of client needs, (b) variations in county determinations of client eligibility, (c) lack of compliance with existing regulations, (d) lack of program data, (e) variations in the level and quality of services provided, (f) variations in the cost of providing services, and (g) inappropriate implementation of standards relating to minimum wage and the Federal Insurance Contribution Act.

The Department of Health indicates that as a result of these county reviews, corrective action plans have been initiated with each county to assure conformance with existing regulations. However, in order for many of these problems to be resolved at the local level, the department needs to identify clear and consistent policies at the state level, particularly in areas not addressed by existing regulations. The department has made little progress in the identification of formal policies. Part of this delay is a result of high staff turnover within the IHSS branch.

During the 11 month period from February 1977 to January 1978, there have been three chiefs of the IHSS branch. In addition, according to information supplied by the Social Services Division, 10 of the branch's

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

23.5 professional positions have left the branch during the 5-month period from July 1, to December 1, 1978. After some delay, all but 2.5 positions have been refilled as of January 15, 1978. However, the head of the Policy Development Section remains unfilled.

These staffing problems are reflective of and contribute to problems of poor employee morale and lack of effective management leadership. Unless this situation is corrected, it will be impossible for the branch to resolve many of the problems identified in the county program reviews. We therefore recommend that the Social Services Division report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by April 1, 1978 on procedures to reduce staff turnover in the In-Home Supportive Services Branch.

Reports to the Legislature

We recommend that the Department of Social Services implement procedures to assure that supplemental reports on social services programs are completed and submitted to the Legislature in a timely fashion.

We further recommend that the Department of Social Services report to the Joint Legislative Budget Committee and the fiscal subcommittees and appropriate policy committees on a biannual basis beginning July 1, 1978 on state management of the Homemaker/Chore program. Such a report should identify major program issues, describe scheduled and completed staff activities, and identify policies established by the department to resolve these issues.

The Legislature added supplemental language to the Budget Act of 1977 requesting that the Department of Health report to the Legislature on a quarterly basis beginning July 1, 1977 on progress in the study of policy issues relating to the homemaker/chore program. Even though staff work for the first report has been completed for some time, no formal reports were submitted to the Legislature as of January 15, 1978.

Because the Legislature needs to be kept informed of the progress and activities of the IHSS branch, we recommend that the Department of Social Services implement procedures to assure that supplemental reports on social services programs be completed and transmitted to the Legislature in a timely fashion. We further recommend that the department submit a report to the Legislature on a biannual basis beginning July 1, 1978 on state management of the homemaker program which includes (a) identification of major program issues, (b) description of scheduled and completed staff activities, and (c) identification of policies established by the department to resolve these issues.

OTHER STATE ADMINISTERED SOCIAL SERVICES PROGRAMS

Adoptions

We recommend approval of the proposed $16,316,150 General Fund subvention for public adoption agencies. This is an increase of $859,556 or 5.6 percent over estimated expenditures in the current year. The increase is due to a cost-of-living adjustment for the program.

Item 270, Department of Social Services Support, proposes $157,596 from the General Fund to establish nine positions for the Adoptions Program. The new staff will be used to (a) reduce backlogs in case processing and review relinquishments and other actions which free children for adoption, (b) develop a monitoring system for the Aid for the Adoption of Children program which provides financial assistance to limited-income parents who adopt hard to place children, (c) provide additional support for placement of children across state lines, and (d) investigate illegal or improper adoptions and placements.

Demonstration Programs

We recommend a General Fund reduction of $200,000 for unspecified demonstration programs.

The budget proposes $1,975,000 for social services demonstration programs. Of this amount, $1,850,000 is in Item 274 and $125,000 is from Chapter 892, Statutes of 1977. This is a decrease of $325,000 or 14.1 percent from current year expenditures and reflects a decrease in funds appropriated from other legislation.

Included in the $1,975,000 are the following amounts: (a) $1,650.000 for continuation of the family protection pilot program previously funded by Chapter 977, Statutes of 1976, (b) $125,000 for local assistance costs to implement pilot centers for victims of domestic violence under the provisions of Chapter 892, Statutes of 1977, and (c) $200,000 for unspecified demonstration programs.

Victims of Domestic Violence. Chapter 892, Statutes of 1977, which became effective January 1, 1978, requires the Department of Health to contract with between four and six public or private nonprofit agencies to develop centers for victims of domestic violence. The Department of Health is required to select projects for funding no later than April 1, 1978. The department has placed responsibility for this program with the Social Services Division. The division indicates it currently plans to send out requests for proposal to prospective bidders by the end of January 1978 and to have individual centers funded by the April 1, 1978 deadline.

Unspecified Projects. The Budget Act of 1977 contained $200,000 from the General Fund for departmental demonstration programs. However, the Department of Health did not begin soliciting proposals for these projects until December 29, 1977. The Governor's Budget again proposes $200,000 for unspecified demonstration programs.

We recommend a General Fund reduction of $200,000 for demonstration programs for the following reasons: (a) we are unable to identify how funds available in the current year will be expended or what benefits will be derived from these projects, and (b) the department is unable to identify how these funds will be spent in the budget year.

Maternity Care Program

We recommend that the Department of Health submit a plan for implementation of the maternity care program to the Joint Legislative Budget Committee and the fiscal subcommittees and appropriate policy committees by April 1, 1978. This plan should include procedures for

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

assuring that estimated expenditures do not exceed funds appropriated and a schedule for implementation of regulations.

Chapter 1190, Statutes of 1970, (The Pregnancy Freedom of Choice Act) which went into effect January 1, 1978, requires the state to reimburse nonprofit licensed maternity homes for the cost of care and services provided to unmarried pregnant women under the age of 21. These reimbursements are not to exceed $965 per month per person as adjusted annually. The Department of Health is required to adopt regulations, to specify procedures for filing claims for reimbursement, and to conduct audits. The Department of Health placed responsibility for administration of the program with the Social Services Division.

Section 16151 of the Welfare and Institutions Code appropriates funds from the General Fund to the Department of Health to reimburse licensed maternity homes as follows: (a) $1.2 million for fiscal year 1977–78, and (b) $2.4 million for fiscal year 1978–79. Although these funds are not appropriated through Item 274, they are reflected in the Governor's Budget under the special social services program.

As of late January, the Department of Health was in the process of developing a model contract for reimbursements, but had not yet implemented the program. Because of the possibility that requests for reimbursement may exceed appropriated funds, careful program planning and early implementation of regulations are essential to assure that funds are properly allocated.

We therefore recommend that the Department of Health submit a plan for implementation of the maternity care program to the Joint Legislative Budget Committee and the fiscal subcommittees and appropriate policy committees by April 1, 1978. This plan should include but not be limited to procedures for assuring that estimated expenditures do not exceed funds appropriated and a schedule for implementation of regulations.

SOCIAL SERVICES PROGRAM ADMINISTRATION

Management Information System

We recommend that the Department of Social Services report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by December 1, 1978 on its progress in (a) implementing a comprehensive data system for the Homemaker/Chore program, and (b) studying the feasibility of a statewide data system for all social services.

One of the continuing problems of the social services program is lack of a comprehensive management information system. In the past the department has relied on several information sources. First, the department receives some client and service information reported by counties in accordance with federal statistical reporting requirements. However, this information does not provide sufficient detail on a timely basis to meet the program's data needs. In addition, the department has relied on one-time surveys of selected counties to provide information in the Homemaker/Chore program area. However, these one-time surveys have often been poorly designed and fail to provide on-going information to identify program trends over time. Recent studies of the Homemaker/Chore program completed by the Office of the Auditor General and the State Benefits and Services Advisory Board point out the need for a comprehensive homemaker/chore management information system.

Recently, the Information Development Section of the Social Services Division developed a series of management objectives for collection of program data. These objectives include development and implementation of a monthly interim data system for the Homemaker/Chore program by January 1978, to provide information on number of clients served, hours of service provided and program expenditures by county. In addition, the section plans to develop and implement a more comprehensive information system for the Homemaker/Chore program by October 1979 and to conduct a study of the feasibility of implementing a statewide management information system for all social services by June 1979.

Because of the need for adequate program data to provide a basis for effective program planning, monitoring, and evaluation, the new Department of Social Services should establish a comprehensive social services information system as one of its major priorities. We therefore recommend that the Department of Social services report to the Joint Legislative Budget Committee and the appropriate fiscal subcommittees and policy committees by December 1, 1978 on its progress in implementing a comprehensive data system for the Homemaker/Chore program and in studying the feasibility of implementing a statewide system for all social services.

Program Monitoring and Review

We recommend deletion of seven new positions for a General Fund reduction of $197,182 in Item 270, support for the Department of Social Services.

We further recommend that the Department of Social Services examine the current program review and monitoring operations for the Social Services program and submit a report of its findings and recommendations to the Joint Legislative Budget Committee and appropriate policy and fiscal subcommittees by December 1, 1978.

Last year, the 1977–78 budget proposed the continuation of six positions in the Social Services Evaluation Branch which had been established pursuant to Section 28 of the Budget Act of 1976. Because the justification for these positions was not adequate, we withheld recommendation pending receipt of the department's plan for conducting reviews of county programs and special program studies. Although the information which was submitted to the Legislature during budget hearings did not adequately identify the department's planned activities, we recommended approval of the six positions because of the program's need for stronger program monitoring and review capabilities. There are currently 26 positions assigned to the Social Services Evaluation Branch.

The budget proposes $197,182 in Item 270 (support for the Department of Social Services) for an additional seven positions to review county programs and conduct special studies. The documentation submitted to our office for justification of the new positions was outdated. We therefore

SPECIAL SOCIAL SERVICES PROGRAMS—Continued

requested and received additional information which indicated that the new positions would be used as follows:

1. *County Monitoring.* Five of the new positions are proposed to be assigned to the Field Operations Section to conduct county reviews. There are currently 14 positions assigned to this section. The purpose of these reviews is to assure that county programs are in compliance with existing social services regulations. The new positions would enable the section to review county programs every 18 months with the first cycle scheduled for completion December 1979.

2. *Special Studies.* Two positions would be assigned to the Program Review Section which currently consists of eight positions. These positions would be used to complete two to four studies in as yet undesignated topic areas.

We have several concerns about the current monitoring and review activities conducted by the Social Services Evaluation Branch. First, there is a lack of coordination between staff of the Evaluation Branch and other program branches who conduct county reviews such as the In-Home Supportive Services Branch. As a result, a county may have several different teams of state staff reviewing selected elements of county programs at different points in time. Second, there is no procedure for assuring that the findings identified in county reviews or special reports are reviewed and resolved by other branch managers responsible for on-going program administration. Third, existing regulations are so vague that they do not provide an adequate standard for state level review of county programs.

Since these problems have not yet been resolved, we do not believe additional positions can be used effectively at this time. As a result, we recommend deletion of seven new positions for a General Fund reduction of $197,182 in Item 270. We further recommend that the Department of Social Services examine the current program review and monitoring operations for the Social Services program and submit a report of its findings and recommendations to the Joint Legislative Budget Committee and the appropriate fiscal and policy committees by December 1, 1978.

Development of an Evaluation Model

We withhold recommendation of four proposed positions pending receipt and review of the Assembly Office of Research preliminary report on social services evaluation.

The budget proposes $126,082 in Item 270 for four positions to be established for the period July 1, 1978 to June 30, 1980. These positions will be used to establish and implement an evaluation model focusing on program effectiveness of child protective services in seven selected counties. The department has not yet developed a work plan for development and implementation of this model.

House Resolution No. 21 directs the Assembly Office of Research to review the evaluation and monitoring systems of the social services programs funded by Title XX, design and select one or more models of social services evaluation, and make recommendations for program evaluations. The Assembly Office of Research indicates it will submit a preliminary report of its findings to the Assembly Rules Committee by February 1978. We withhold recommendation of the four proposed positions pending receipt of this report.

Coordination of Programs for the Elderly

We recommend that the Social Services Division designate two experienced professional staff to participate in a special planning group in the Department of Aging beginning no later than June 1, 1978.

In Item 238, Department of Aging, we discuss the lack of an integrated system of services to the elderly, particularly in the area of health and social services. As a result, we recommend that a special planning group be established in the Department of Aging which has responsiblity for coordinating services to the elderly. This planning group would be composed of staff from each of the existing state departments and offices which have responsibility for planning and providing health and social services to the elderly. The Social Services Division in the Department of Health is a logical contributor to this effort since it is responsible for planning and providing protective and out-of-home care services for adults, as well as homemaker/chore services. In the Homemaker/Chore program, it is estimated that 64 percent of the recipients are over 65 years of age.

We recommend that the Social Services Division identify two experienced professional staff to participate in this special planning group no later than June 1, 1978. Because the Social Services Divison already has responsibility for services planning and coordination and because a significant number of new positions were added to the budget last year for this purpose, the designation of two positions to the special planning group is an appropriate use of existing staff.

Department of Social Services

INDO-CHINESE REFUGEE ASSISTANCE PROGRAM

Item 275 from the General Fund — Budget p. 693

Requested 1978–79	$3,019,900
Estimated 1977–78	None
Requested increase $3,019,900	
Total recommended reduction	$1,630,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Federal Funding Changes. Reduce by $1,630,000.* Recommend reduction of support for payments to individuals not meeting eligibility requirements of existing welfare programs. 626

INDO-CHINESE REFUGEE ASSISTANCE PROGRAM—Continued

GENERAL PROGRAM STATEMENT

The Indo-Chinese Refugee Assistance program (IRAP) was established by federal law and policy directives to provide benefits to eligible Indo-Chinese refugees. Until recently, the IRAP was 100 percent federally-funded. However, the enactment of recent federal legislation (PL 95-145) will phase-out federal participation in this program. This phase-out is to be implemented over a four-year period as follows: 75 percent federal participation beginning October 1, 1978; 50 percent on October 1, 1979; 25 percent on October 1, 1980; and zero on October 1, 1981.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes a General Fund appropriation of $3,-019,900 for the local assistance cost of continuing the Indo-Chinese Refugee Assistance program in fiscal year 1978–79. Total local assistance costs including federal, state and county support are projected to be $29,644,800 which is an increase of $2,619,600, or 9.7 percent, over the current year. The primary reason for this increase is a projected increase in caseload. Table 1 presents total local assistance costs as identified in the Governor's Budget.

Table 1
Local Assistance Costs for Indo-Chinese Refugee Assistance Program for Fiscal Year 1978–79

	Federal	*State*	*County*	*Total*
1. AFDC				
a. Federally eligible	$14,272,500	$1,376,300	$662,600	$16,311,400
b. Nonfederally eligible	2,339,100	526,300	253,400	3,118,800
2. General assistance	1,067,600	—	513,200	1,580,800
3. Residuals	7,244,400	1,630,000	784,800	9,659,200
4. Nonassistance food stamp savings	(512,700)	(512,700)	—	(1,025,400)
Total	$24,410,900	$3,019,900	$2,214,000	$29,644,800

Federal Funding Changes

We recommend a General Fund reduction of $1,630,000 for the state cost of providing benefits to Indo-Chinese refugees who do not meet eligibility requirements for existing welfare programs.

As of October 1, 1977, IRAP individuals who were qualified to receive AFDC payments were enrolled in the AFDC program. Payments to these individuals were 100 percent federally supported, with IRAP reimbursing the state and counties for their share of AFDC costs. IRAP individuals who were not eligible for AFDC nevertheless received payments from county welfare departments equal to the AFDC payment. These costs were also 100 percent federally funded, with IRAP providing the entire amount. These non-AFDC eligible individuals are referred to as IRAP "residuals."

Beginning October 1, 1978, federal IRAP reimbursements will be reduced by 25 percent. The $3,019,900 proposed from the General Fund is the net state cost of replacing declining federal reimbursements and contains the following cost components: (a) an increase of $1,902,600 for the portion of the state's share of AFDC costs which will no longer be reimbursed by federal IRAP funds, (b) an increase of $1,630,000 for the state cost of continuing payments to residual individuals at the current year level despite a reduction in federal reimbursements, and (c) a savings of $512,700 that will no longer be charged to the nonassistance food stamp program. In the past, IRAP recipients were enrolled in the nonassistance food stamp program for which the state pays 50 percent of the administrative cost. However, as IRAP individuals are transferred to the AFDC program, food stamp administrative costs will be absorbed by the AFDC program.

The Department of Benefit Payments has estimated that a portion of the residual IRAP individuals will be eligible for county general assistance. These costs will be supported from federal IRAP reimbursements and county funds with no state participation.

If the state should choose to continue to replace declining federal funds with state General Fund support for the IRAP residuals, this cost will continue to grow as projected federal phase-out of the program is completed.

We believe that neither the state nor the counties have the responsibility or authority to pay for the administrative and grant costs of individuals who do not qualify for existing welfare programs. The administration is proposing a significant policy change through the budget procedure in lieu of the normal legislative procedure. Adoption of this policy would result in the granting of public assistance to a group of persons who have assets or income which exceed the present AFDC standards or who do not meet other eligibility requirements such as having minor children. We can find no justification for this and therefore recommend a General Fund reduction of $1,630,000 for the state cost of providing payments to IRAP residuals.

Department of Social Services
COUNTY ADMINISTRATION

Item 276 from the General Fund — Budget p. 692

Requested 1978–79	$77,904,900
Estimated 1977–78	69,746,100
Actual 1976–77	65,677,564
Requested increase $8,158,800 (11.7 percent)	
Total recommended reduction	Pending

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
276(a)	AFDC	General	$64,638,700
276(b)	Special Adult Programs	General	1,950,800
276(c)	Food Stamps	General	10,446,600
276(d)	Emergency Payments	General	548,900
276(e)	Nonmedical Out-of-Home Care Certification	General	319,900
			$77,904,900

COUNTY ADMINISTRATION—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Expenditure Revisions. Withhold recommendation pending receipt and review of May Revision of Expenditures.	629

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's share of administrative costs incurred by counties for the following program activities: a) AFDC eligibility determination, b) administration of the Food Stamp program, c) administration of the special benefit and emergency payments programs for aged, blind and disabled recipients, and d) identification of licensed out-of-home care facilities and certification of nonlicensed facilities which provide services to aged, blind and disabled recipients.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes a General Fund appropriation of $77,904,900 for the state share of county welfare department administrative costs. This is an increase of $8,158,800 or 11.7 percent over the current year.

As shown in Table 1, the Governor's Budget projects that total county welfare department administrative costs including federal, state, and county funds will be $395,845,700 in fiscal year 1978–79 which is an increase of $28,043,800 or 7.6 percent over the current year.

Table 1

TOTAL COUNTY WELFARE DEPARTMENT ADMINISTRATIVE COSTS FOR AFDC, SPECIAL ADULT PROGRAM, FOOD STAMPS, EMERGENCY PAYMENTS AND NONMEDICAL OUT-OF-HOME CARE CERTIFICATION [a]

	Estimated 1977–78	*Projected 1978–79*	*Increase*	*Percent Change*
1. AFDC				
a. Eligibility Casework	$233,404,200	$253,614,300	+$20,210,100	+8.7
b. Child Support Collections	70,818,000	75,067,100	+4,249,100	+6.0
2. Special Adult Programs	1,573,300	2,002,100	428,800	+27.3
3. Food Stamps	61,196,100	64,293,400	+3,097,300	+5.1
4. Emergency Payments	508,500	548,900	+40,400	+7.9
5. Nonmedical Out-of-Home Care Certification	301,800	319,900	+18,100	+6.0
Totals	$367,801,900	$395,845,700	+$28,043,800	+7.6

[a] Excludes costs for Medi-Cal eligibility determination, county general assistance programs and county social services programs.

Expenditure Revisions

We withhold recommendation pending receipt and review of the May revision of expenditures.

In May 1978, the Department of Finance will submit its Revision of Expenditures to the Legislature. The revision will contain the administration's most recent expenditure claims and workload data. We have identified two areas where revisions are likely. The first is the state's share of the cost of implementing proposed regulations. The budget proposes an appropriation of $1,836,900 for proposed regulations which will change procedures for contacting AFDC recipients who fail to return monthly reporting forms. The Department of Benefit Payments indicates it is currently revising its proposed regulations and this may affect the estimated cost of implementation.

A second area is the cost of implementing new federal food stamp regulations. Recently enacted federal law (PL 95-113) contains major revisions to the food stamp program. These revisions will eliminate the purchase requirement, revise income and eligibility requirements, and change certain administrative procedures. However, federal regulations have not been issued to implement this new law. If these new regulations are received by the department in time to be included in the May Revision of Expenditures, they may result in changes in the General Fund appropriation. Because of the need to continue this item as a closed-ended appropriation in conjunction with a cost-control plan, it is important that the budget estimates be as accurate as possible.

Department of Social Services
EXECUTIVE MANDATES

Item 277 from the General Fund — Budget p. 694

Requested 1978–79	$2,022,800
Estimated 1977–78	None
Actual 1967–77	None
Requested increase $2,022,800	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Expenditure Revisions. Withhold recommendation pending receipt and review of May revision of expenditures.	629

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending receipt and review of the May revision of expenditures.

The Governor's Budget proposes a General Fund appropriation of $2,-022,800 to reimburse counties for the cost of implementing state regulations for the Aid to Families with Dependent Children (AFDC) program

EXECUTIVE MANDATES—Continued

in accordance with Section 2231 of the Revenue and Taxation Code. The state's share of these increased costs is reflected in Control Section 32.5, AFDC Maintenance Payments, and in Item 276, County Administration.

This is a new budget item and reflects costs for the following changes in regulations:

1. *Work-Related Equipment.* The department proposes to implement regulations which would exempt from consideration as property the entire value of an AFDC recipient's work-related equipment. Current regulations provide a maximum exemption of $200. This limit has forced some recipients to dispose of work-related equipment in order to meet AFDC eligibility requirements. The new regulations are scheduled for implementation February 1, 1978. The budget proposes $27,500 to reimburse counties for their share of increased grant costs resulting from a minor increase in caseload.

2. *Minor Parent.* The department proposes to implement regulations which would change AFDC eligibility standards for minor parents and their children. The proposed regulation would exclude a minor parent residing with his or her nonneedy parents from eligibility for AFDC but would continue AFDC payments for the minor parent's child. Under current regulations, the value of housing, utilities, food and clothing contributed to the minor parent by his or her nonneedy parents is deducted from the AFDC payment for minor parent and child. This often results in the child receiving less than would be paid if eligibility were based on the needs of the child alone. Under the new regulations, if the grandparent is capable of supporting the minor parent, only the minor parent's child would be eligible for AFDC. This would make the payment level for that child comparable to the payment level of children residing with other nonneedy relatives. The budget proposes $158,400 to reimburse counties for their share of increased grant costs.

3. *Monthly Reporting Forms.* The department proposes to develop regulations which will change procedures for contacting AFDC recipients who fail to return monthly reporting forms. If such forms are not received, county welfare departments may discontinue a recipient's aid payment. The budget proposes $1,836,900 to reimburse counties for their share of administrative costs resulting from such regulations. However, the Department of Benefit Payments indicates that the proposed regulations may be substantially revised. As a result, the department's current cost estimate of $1,836,900 may be adjusted when the Department of Finance submits the May revision of expenditures. We therefore withhold recommendation.

Department of Social Services

LEGISLATIVE MANDATES

Item 278 from the General Fund — Budget p. 701

Requested 1978–79	$17,738,700
Estimated 1977–78	17,768,000
Actual 1976–77	8,354,372
Requested decrease $29,300 (0.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Chapter 348, Statutes of 1976, increased the AFDC welfare payment standard by 6 percent, effective January 1, 1977, in order to support a higher standard of living. Normally, counties pay a portion of AFDC grant costs. However, because the state mandated the increase, it has an obligation to reimburse counties for the local share of the 6 percent increase.

Chapter 348 disclaims any obligation on the state's part to reimburse counties for cost-of-living increases in payment standards. As a result, cost-of-living increases do not affect the state's level of reimbursement on a cost-per-case basis.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget requests $17,738,700 for fiscal year 1978–79 to reimburse counties for their portion of the cost of AFDC grant increases which became effective January 1, 1977. The proposed $17,738,700 is a decrease of $29,300, or 0.2 percent, below the current year. The reason for this decrease is the 0.2 percent decrease in AFDC caseload projected for fiscal year 1978–79.

We recommend approval of this amount with the understanding that the appropriation is subject to adjustment when the Department of Finance prepares the May revision of expenditures.

Health and Welfare Agency
DEPARTMENT OF CORRECTIONS

Items 279–285 from the General Fund — Budget p. 714

Requested 1978–79	$266,116,975
Estimated 1977–78	261,041,103
Actual 1976–77	223,239,827
Requested increase $5,075,875 (1.9 percent)	
Total recommended reduction	$781,270

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
279	Departmental operations	General	$257,459,656
280	Community Release Board	General	3,982,809
281	Workers compensation—inmates	General	1,247,600
282	Transportation of prisoners	General	233,200
283	Returning fugitives from justice	General	816,200
284	Court costs and county charges	General	1,724,550
285	Local detention of parolees	General	652,960
			$266,116,975

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *New Positions for Inmate Visiting. Reduce Item 279 by $347,670.* Recommend deletion of 20 positions requested for surveilling inmate visiting areas. — 635
2. *New Positions for Prison Gang Intelligence. Reduce Item 279 by $110,000.* Recommend deletion of six positions requested for obtaining information on prison gangs. — 636
3. *New Maintenance Positions at Deuel Vocational Institution. Reduce Item 279 by $74,100.* Recommend deletion of five new positions. — 637
4. Position Transfer. Recommend Structural Drafting Technician be transferred to headquarters staff. — 637
5. Staffing Standards. Recommend department establish staffing standards for psychiatric treatment and submit report. — 638
6. Limited Term Positions. Recommend nine new clerical positions for Community Release Board be authorized for one year only. — 639
7. *Parole Region Consolidation. Reduce Item 279 by $25,000.* Recommend deletion of one parole agent III position redirected to update and maintain manuals. — 640
8. Limited Term Approval. Recommend CEA II position funds being allocated to the Special Alcohol and Narcotics program be approved for two years only. — 640

9. *New Positions for High Control Supervision Unit. Reduce Item 279 by $160,000.* Recommend deletion of 10 positions requested for parolee investigation. 641
10. *Investigative/Intelligence Staff. Reduce Item 279 by $64,500.* Recommend deletion of three special agent positions to eliminate duplication. 642

GENERAL PROGRAM STATEMENT

The Department of Corrections, established in 1944 under the provisions of Chapter I, 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 as part of their prescribed 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 functions, the department operates 12 major institutions, 19 camps, two community correctional centers and 58 parole units. The department estimates these facilities and services will provide for an average daily population of 22,205 in institutions and 20,092 on parole (including felons and nonfelon drug addicts).

Impact of Determinate Sentencing Act of 1976, Chapter 1139, Statutes of 1976 (SB 42) and Chapter 165, Statutes of 1977 (AB 476)

On July 1, 1977, California's Determinate Sentence Law took effect, replacing the indeterminate sentencing structure. The purpose of imprisonment is no longer rehabilitation of the offender. The new law declares that "the purpose of imprisonment for crime is punishment."

The Determinate Sentence Law establishes a scale of three basic sentences for most crimes, with some crimes carrying a penalty of death or life imprisonment with or without the possibility of parole. In sentencing an individual to prison, judges must initially select one of the three basic terms set for each offense—for example 16 months, 2 or 3 years and 5, 6, or 7 years. The upper and lower ranges are for special mitigating or aggravating circumstances. In addition, judges can "enhance", or increase, sentences for the following reasons: use of weapons, prior felony convictions, excessive property damage, and consecutive sentences. Judges are not required to sentence all felons to prison; they retain the discretion to impose a fine, a county jail term, probation or suspending sentence as provided by law.

Good behavior and work participation credits can reduce the amount of time served by one-third. Credits are vested every eight months on the basis of three months for good behavior and one month for prescribed work participation. The new law stipulates one year on parole for persons not sentenced to life imprisonment and three years for those with a life sentence. The maximum time for any single reincarceration resulting from a technical violation of parole is six months and one year, respectively. Any such period of reincarceration is not credited to an individual's parole period. Thus, persons not sentenced to life imprisonment cannot

DEPARTMENT OF CORRECTIONS—Continued

be retained under parole or custody (without a new conviction) for longer than 18 months; for persons with a life sentence, the limit is four years.

The full impact of the Determinate Sentence Law on the institutional and parole programs can be assessed only after further experience with it.

The department's proposed budget provides for program and personnel increases in the institutional program. Other departmental programs generally would be continued at their previously authorized level. The total operations of this department, the Community Release and 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
Department of Corrections
Budget Summary

			Change from Current Year	
Funding	*Estimated 1977–78*	*Proposed 1978–79*	*Amount*	*Percent*
General Fund	$261,041,103	$266,116,975	$5,075,872	1.9%
Correctional Industries Revolving Fund	18,851,279	19,943,530	1,092,251	5.8
Inmate Welfare Fund	6,015,610	6,169,861	154,251	2.6
Federal funds	42,063	42,063	-	-
Reimbursements	3,925,619	1,797,289	−2,128,330	−54.2
Total	$289,875,674	$294,069,718	$4,194,044	1.4%
Program				
I. Reception and diagnosis	$2,887,052	$2,932,846	$45,794	1.6%
Personnel-years	127	126.1	.9	−.7
II. Institution	236,615,443	241,901,178	5,285,735	2.2
Personnel-years	6,987.7	6,981.2	−6.5	−.1
III. Releasing authorities	6,501,925	4,140,881	−2,361,044	−36.3
Personnel-years	77.8	90.8	13	16.7
IV. Community correctional program	28,941,187	29,222,737	281,550	1.0
Personnel-years	877.7	897.4	19.7	2.2
V. Administration (undistributed)	11,697,133	12,445,166	748,033	6.4
Personnel-years	354.3	368.5	14.2	4.0
VI. Special items of expense	3,232,934	3,426,910	193,976	6.0
Totals	$289,875,674	$294,069,718	$4,194,044	1.4%
Personnel-years	8,424.5	8,464.0	39.5	.4

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. For individuals committed to prison, an extensive personal history is compiled for determining suitable custody and program needs. 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 $2,932,846 for this program is $45,794 or 1.6 percent above estimated current-year expenditures. The increase represents merit salary adjustments and price inflation 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 24 correctional industry 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 1,070 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 22,205 inmates in the budget year, an increase of 820 inmates over the current year.

For this program, the department proposes an expenditure of $241,901,178 in the budget year, which is an increase of $5,285,735 or 2.2 percent above estimated current-year expenditures.

Gang related violence among inmates has become a major problem in prison operations. The primary causes of this turmoil are intra and inter ethnic rivalries, and the distribution of narcotics, both inside and outside of prison. Thus, most of the department's proposals in this program area attempt to control gang violence and reduce drug traffic into prison.

Excessive Staff Requested for Surveilling Inmate Visitors

We recommend deletion of 20 new positions proposed to increase security surveillance within prison visiting areas, for a savings of $347,670 (Item 279).

The number of institutional arrests for inmate possession of narcotics and dangerous drugs has increased approximately 91 percent from 1975 to 1977, rising from 430 in 1975 to 820 in 1977.

To combat this problem, the department is proposing a five-part, $680,652 program consisting of: (a) 18.6 additional guards for screening and searching visitors before they enter the visiting areas at a cost of $323,333; (b) certain physical modifications costing $58,900 to increase the security of visiting facilities at six institutions—e.g., telephone visiting booths; (c) urinalysis machines and equipment for ten institutions to identify narcotics users at a cost of $190,870 (San Quentin and the California Rehabilitation Center already have such machines); (d) the use of specially trained

DEPARTMENT OF CORRECTIONS—Continued

dogs and their handlers to detect drugs and other contraband items inside the institutions at a cost of $62,800; and (e) 20 guard positions at a cost of $347,670 for surveillance inside the prison visiting rooms.

The department already has 97.5 surveillance guards assigned inside the visiting areas of the 12 institutions, but only one guard is assigned to the visitors entrance gate at each institution. With the addition of 18.6 positions and more thorough inspection procedures, the entrance guards should intercept a substantial amount of illegal materials currently being smuggled into the institutions. The urinalysis machines will provide a means to detect inmates using narcotics, and those so identified will be restricted to using telephone booths for visiting purposes, thereby eliminating direct transmission of articles. The dogs will provide another means of drug detection within the institutions.

These four new proposals, combined with the existing 97.5 visiting area security guards, should have a significant deterrent impact and eliminate a substantial amount of the narcotic/contraband traffic into the prisons.

Visiting room surveillance is probably the least cost-effective method of drug control because of the crowded conditions in these areas, the presence of children and close physical contact between inmates and visitors. We believe that, given the size of staff already available and the potential benefits to be gained from implementing the first four proposals, the department should assess the impact of these programs before augmenting visiting room staff.

Reduce New Positions for Prison Gang Intelligence

We recommend deletion of six new positions proposed to obtain information on prison gang activity, for a savings of $110,000 (Item 279).

The department is requesting one full-time lieutenant position for each of the 12 institutions to collect, analyze and disseminate information on prison gangs to other institutions and parole officers, as well as to federal, state and local law enforcement agencies.

Table 2, shows reported gang incidents by institution for 1977. Given the number of reported gang incidents and the need to avoid placing inmates in institutions with rival gangs, we believe there is justification for the requested positions at four institutions: (1) Deuel Vocational Institution, (2) California Correctional Center, (3) California Training Facility, and (4) San Quentin.

Although the California Institution for Men and the California Medical Facility have had fewer incidents, we are recommending that both receive the requested positions as well. As reception centers for the entire system, they constitute important sources of information on gang activity.

The number of gang-related incidents at the remaining institutions is very small (ranging from 15 to 0) and does not warrant such positions on a full-time basis. Therefore, only six of the requested positions should be authorized.

Table 2
Department of Corrections
Number of Reported Gang Related Incidents by Institution in 1977

Institution	*Number Incidents*
Deuel Vocational Institution	84
California Correctional Center	65
California Training Facility	56
San Quentin State Prison	44
California Institution for Men	24
California Medical Facility	17
Folsom State Prison	15
California Mens Colony	9
California Correctional Institution	4
California Rehabilitation Center	2
California Institution for Women	0
Sierra Conservation Center	0

New Maintenance Personnel for Deuel Vocational Institution Not Justified

We recommend deletion of five new maintenance positions (4 painters and one glazier) for a savings of $74,100 (Item 279).

The department is requesting 16 new maintenance positions (plus a secretary) for Deuel Vocational Institution (DVI). The department states that the institution does not have a sufficient number of skilled employees for a preventive maintenance program, and that the existing staff is able only to handle breakdowns and those repairs deemed absolutely necessary. The personnel problem is compounded by the lack of inmates with trade skills to augment the civilian staff.

Eleven of the requested positions, which we recommend for approval, are in job classifications which require special expertise (e.g., machinist, electrician, and fusion welder) which would be difficult to secure from the inmate population. The remaining five, however, consist of four painter I positions and one glazier (glass installer). We believe that inmates can be trained to perform necessary painting within the institution, and therefore recommend deletion of the four painter positions. With respect to the glazier, we note that none of the 12 institutions has a position specified to install glass, and we have no information indicating why such a position is needed. DVI is not uniquely different from the other 11 institutions, and it has operated adequately in the past without a glazier. In the absence of justification for the glazier position, it should be deleted.

Position Transfer

We recommend a proposed structural drafting technician II position for Deuel Vocational Institution be transferred to headquarters.

The department has requested a structural drafting technician II position for DVI to make design and construction drawings for remodeling existing and building new structures.

None of the 12 institutions or the facilities planning section of the headquarters office has a drafting position and the department has not shown

DEPARTMENT OF CORRECTIONS—Continued

why only DVI should have one. We believe that all of the institutions could benefit from the services of this position for minor projects which would not warrant use of the State Architect's office. Therefore, it should be placed in the department's central facilities planning section.

Need Psychiatric Staffing Standards

We recommend the department formulate staffing standards for psychiatric treatment at the California Medical Facility and California Mens Colony and report to the Joint Legislative Budget Committee by November 1, 1978.

The department provides psychiatric treatment for mentally ill inmates requiring hospitalization at the California Medical Facility and the California Mens Colony. Over the past years, psychiatric staffing allocations for these institutions have been piecemeal rather than according to a comprehensive treatment plan. Recent federal court decisions in other states have mandated improved treatment standards in the corrections and mental health areas. We believe the department should develop staffing standards of its own to reduce the possibility of judicial intervention. California has recently instituted significant changes in standards for psychiatric treatment, in terms of both physical structure and staffing ratios for the mental hospitals. Chapter 1202, Statutes of 1973 (SB 413), requires state hospitals under the jurisdiction of the Department of Health to be licensed as health facilities which requires compliance with certain standards. Although the law does not make these standards applicable to the Department of Corrections, the department should develop standards to conform with contemporary practices and report thereon to the Joint Legislative Budget Committee by November 1, 1978.

Other New Positions and Major Program Adjustments

The department is requesting other new positions and program increases for the institution program which we recommend be approved as follows:

Program Detail	*Total Cost*
1. Relocate protective housing unit. Provide 20 additional positions to relocate the protective housing unit at Deuel Vocational Institution to the California Institution for Men (CIM) and to correct other related security deficiencies at CIM. (The Legislature was notified of this change through Section 28 letter.)	$335,037
2. Augment the security staff in San Quentin north and east blocks by 15.2 positions for control and safety of staff and inmates. (Approval was given by the Legislature to add these positions in the current year.)	$277,220
3. Provide 22.4 security positions for Deuel Vocational Institution to provide a second officer in each of the seven general population housing units to allow consistency of supervision and mobile surveillance.	$398,656

4. Provide 20 boiler room tender positions to replace inmate help at the Correctional Training Facility, California Institution for Men, San Quentin State Prison and California Rehabilitation Center. This will reduce repair costs and eliminate a primary source of weapons.......... $228,882
5. Replace deteriorated and unsafe laundry equipment not covered by the normal equipment replacement allotment.......... $330,000
6. Establish four office services supervisor I positions, one each at the California Medical Facility, Folsom, Deuel Vocational Institution, and the California Mens Colony. This position will assume the duties of chief clerk and provide professional skills capable of handling the increasingly complex procurement document workload. (All other institutions have this position.) $49,853

III. RELEASING AUTHORITIES

The Determinate Sentencing Law created a Community Release Board, replacing both the Adult Authority for male felons, and the Women's Board of Terms and Paroles for female felons. The board has nine members, all appointed by the Governor with the advice and consent of the Senate.

The Community Release Board reviews, within one year of commitment, the sentences of all persons committed to the department in order to ascertain whether specific sentences are in conformity with sentences received by other inmates for similar offenses. The board has the authority to return cases to the trial courts for resentencing when it determines sentences are disparate. The board will set the terms of incarceration for persons sentenced to life imprisonment with possibility of parole. The up to one-third reduction in time served for good behavior and program participation will be initially determined by the department subject to review by the Community Release Board on appeal of an inmate. The board must also decide whether, and for how long, to reincarcerate parolees for technical violations.

Temporary Backlog of Indeterminate Sentence Cases

We recommend that nine new clerical positions for the Community Release Board be authorized for one year only.

This year the board has been setting determinate terms for all inmates sentenced before July 1, 1977. To accomplish this task, the Legislature authorized a one-time augmentation of 24 positions for 1977–78. It was originally contemplated that with this enlarged staff the board could establish release dates for all inmates sentenced under the indeterminate sentence law. By the end of the current year, the board will have set determinate sentence dates for all regular and "serious offender" cases—persons convicted of crimes involving violence or bodily injury. However, in the budget year the board will need to conduct hearings for approximately 2,000 inmates sentenced to life imprisonment with the possibility of parole. To handle this workload, the board is requesting five, one-year hearing officer positions and nine permanent clerical office assistant II positions.

DEPARTMENT OF CORRECTIONS—Continued

Pursuant to the determinate sentence law, the board is required to record hearings involving serious offender and life-term prisoners. These recordings must be transcribed within 30 days of the for-life term hearings and in every serious offender hearing which is subject to court review. Additionally, in order to provide the ability to assure consistent decisions rendered by the board in these, and all other cases, as mandated by law, the decisions need to be centrally reviewed. These requirements necessitate a transcription procedure not presently available to the board.

However, by the end of the budget year the board should have completed the backlog of hearings for life-termers and have an empirical estimate of how many serious offender hearings need to be transcribed. At that time, we will be in a better position to evaluate the board's regular workload and the required number of permanent clerical positions. Pending that review, the new clerical positions should be approved for one year only.

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 for treatment of their drug problem. This board has not been directly affected by the Indeterminate Sentence Law, and the budget provides for a continuation of the currently approved program level.

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 public protection as well as support and services to parolees to assist them in achieving successful parole adjustment.

Parole Region Consolidation Warrants Position Cuts

We recommend deletion of one parole agent III position proposed to update and maintain the three basic operating manuals on parole supervision, for a savings of $25,000 (Item 279).

We recommend that funding derived from converting one CEA II position to operating expenses for funding the Special Alcohol and Narcotics program be limited to June 30, 1981, pending the department's evaluation of this project.

The Parole and Community Services Division currently operates through five parole regions, four of which are responsible for both felons and nonfelon drug addicts, while the fifth is responsible only for nonfelons in Los Angeles County. The nonfelon population in Region V has dropped significantly during the last three years because the county has been committing a decreasing number of civil addicts to the department, preferring instead to use local facilities and programs for treating such persons. Thus, there has been a decrease in the number of nonfelons released to state parole supervision in that region.

As a result of this population decrease, the department proposes to eliminate region V and reallocate its staff of seven positions. As discussed below, we recommend deletion of one position and limited-term approval of another.

The department proposes to reassign permanently one parole agent III position to revising and maintaining the three operating manuals on parole supervision: Felon Supervision Manual, Nonfelon Supervision Manual, and Work Furlough Supervision Manual. In 1977–78 the Parole and Community Services Division established a task force (costing $38,450) to rewrite the Felon Supervision Manual. This was necessitated by changes in parole procedure resulting from the determinate sentence law.

We do not believe that the task of updating manuals is of such magnitude or need take place so frequently as to warrant a full-time position. Such work should be absorbed by existing staff. Accordingly, we recommend deletion of the position.

The National Institute of Alcohol and Alcohol Abuse funded the Special Alcohol and Narcotics program from July 1971, through June 30, 1977. This program, operated by California State Polytechnic University, Pomona, provided pre-release and community re-entry services to inmates and parolees with a history of alcohol and/or drug abuse. The focus of these services was on academic and vocational education. According to the department, preliminary results of this project indicate a high rate of successful program completion, together with a high rate of job placement.

The department proposes to eliminate one CEA II position (regional parole administrator) and transfer the savings, approximating $45,000, to operating expense—subsistence and personal care. These funds would be used to continue the program. This program should be empirically evaluated before state funds are committed for its continuation.

Reduction of High Control Supervision Unit

We recommend deletion of 10 new parole positions proposed for a High Control Supervision program, for a savings of $160,000 (Item 279).

The department is requesting 30 positions (24 special agents and 6 clerical) to establish for a two-year period, six "high control" parole supervision units to provide special investigation and surveillance of parolees suspected of engaging in organized and/or serious criminal behavior. These agents would not carry ordinary caseloads.

Because this would be an experimental program and the size of the relevant parole population is unknown, there is no basis for determining the number of such units that might be utilized or evaluating their impact on parolee behavior. Accordingly, we believe that the program should be limited to four units (16 agents and four clerical) with expansion in future years dependent on an assessment of program results.

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

DEPARTMENT OF CORRECTIONS—Continued

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. Each of the 5 parole regions is directed by a parole administrator, and the parole function is subdivided into districts and parole units.

Duplication of Investigative/Intelligence Staff

We recommend deletion of three special agent positions for a savings of $64,500 (Item 279) to eliminate duplication.

The department's central office is requesting three special agent positions, one for the Bay Area Special Services unit and two for assignment to the Prison Gang Task Force.

The Bay Area Special Services unit provides a number of administrative and investigative functions, such as liaison with local law enforcement agencies and investigation of prison gang-related activities. Approximately 50 percent of the agents' time will be assigned to a special Bay Area Task Force on prison gang activity (whose functions are very similar to those described below).

The Prison Gang Task Force collects and analyzes information on prison gang activity—both inside and outside of prison—and dessiminates it to other operational units of the department as well as federal, state, and local law enforcement agencies.

The department has also requested 36 other new positions, costing $1,567,000, whose stated tasks are duplicative of the above functions as follows:

A. Four parole agent II positions (one for each region) to investigate, coordinate, and disseminate information concerning prison gangs within their respective regions. These agents will not carry any caseload. Their total efforts will be directed toward the suppression of prison gang-connected activity both inside and outside of the institutions.

B. A senior special agent and secretary for headquarters staff to coordinate the above four parole agents and the 12 lieutenant positions for each of the institutions discussed earlier.

C. Thirty positions (discussed earlier) for six high control supervision units to provide investigation and surveillance of parolees suspected of engaging in organized and/or other serious criminal behavior.

These 36 special investigative, intelligence, and surveillance positions would be performing the same basic duties proposed for the three special agents. One or more of the 36 positions could also provide liaison to the Bay Area Task Force and the Prison Gang Task Force.

VI. SPECIAL ITEMS OF EXPENSE

Item 282 to 285 provide reimbursements to the counties for expenses relating to transportation of prisoners and parole violators to state prisons, returning fugitives from justice to 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. As shown in Table 3 each of the four items reflects a continuation of the currently approved program level adjusted for inflation.

Table 3

	Actual 1976–77	Estimated 1977–78	Proposed 1978–79	Change From Prior Year Amount	Change From Prior Year Percent
Function					
Transportation of Prisoners (Item 282)	$200,000	$220,000	$233,200	$13,200	6%
Returning Fugitives from Justice (Item 283)	700,000	770,000	816,200	46,200	6
Court costs and County Charges (Item 284)	1,598,934	1,626,934	1,724,550	97,616	6
County Charges for Detention of Parolees (Item 285)	560,000	616,000	652,960	36,960	6

Health and Welfare Agency

DEPARTMENT OF THE YOUTH AUTHORITY

Items 286–293 from the General Fund — Budget p. 736

Requested 1978–79	$147,988,086
Estimated 1977–78	142,516,655
Actual 1976–77	117,960,892
Requested increase $5,471,431 (3.8 percent)	
Total recommended reduction	$860,680

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
286	Department Support	General	$110,173,246
287	Transportation of persons committed	General	43,540
288	Maintenance and operation of county juvenile homes and camps	General	3,648,000
289	Construction of county juvenile homes and camps	General	400,000
290	County delinquency prevention commissions	General	33,300
291	Delinquency prevention projects, research and training grants	General	200,000
292	Assistance to county special probation supervision programs	General	15,430,000
293	Legislative mandates (Chapter 1071, Statutes of 1976)	General	18,000,000
	Prior year balance available (Chapter 647, Statutes of 1977)	General	60,000
			$147,988,086

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

		Analysis page
1.	*Feeding Cost. Reduce Item 286 by $65,450.* Recommend offset of reimbursements from National School Lunch Program.	650
2.	*Offsetting Grant Overhead Funds. Reduce Item 286 by $214,500.* Recommend overhead portion of monies received to offset costs of administering grant programs be used for that purpose for a General Fund savings.	650
3.	*Camp Programs Under-utilized. Reduce Item 286 by $148,480.* Recommend deletion of 6.8 positions for the camp at Ventura School.	651
4.	*Ward/Staff Ratio. Reduce Item 286 by $220,190.* Recommend deletion of 11.1 positions for pilot program to evaluate ward and staff safety. Recommend evaluation be conducted of Fred C. Nelles School where reduced population levels already exist.	652
5.	Ward Grievance Staffing. Recommend department identify all positions diverted to ward grievance duties.	653
6.	*Medical-Psychiatric Program. Reduce Item 286 by $78,000.* Recommend deletion of funds for staff at the Preston School until new modular building is completed.	653
7.	Modesto Training Academy. Recommend department utilize academy by sending new employees to first available class following employment.	654
8.	Modesto Training Academy. Recommend simplification of contract with Department of Corrections.	655
9.	Parole Reorganization. Recommend department continue to operate and evaluate special parole programs proposed for termination.	656
10.	*Volunteer Coordinators. Reduce Item 286 by $104,900.* Recommend deletion of four positions requested for pilot volunteer projects in parole program.	657
11.	*County Reimbursements for Detaining Parolees. Reduce Item 286 by $104,660 and establish Item 286.1 in the amount of $75,500.* Recommend transfer of funds to local assistance and reduction of amount requested by $29,160.	658
12.	Probation Subsidy. Withhold recommendation pending additional cost information.	658

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

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 encourage 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 includes a community parole element and an institutions element, each of which is administered by a deputy director and supporting staff in Sacramento. The parole branch is divided into four regions. The institutions and camps branch is organized

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

on a north-south regional basis. It operates four reception centers, eight institutions and five forestry camps as follows:

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
Camps:	
Ben Lomond Youth Conservation Camp	Santa Cruz
Pine Grove Youth Conservation Camp	Pine Grove
Mt. Bullion Youth Conservation Camp	Mariposa
Washington Ridge Youth Conservation Camp	Nevada City
Oak Glen Youth Conservation Camp	Yucaipa

[a] Colocated with institution.

With an estimated average daily population of 4,332 wards, plus a community parole program involving 7,258 wards, the department will supervise a projected total daily average population of 11,590 wards in fiscal year 1978–79 (Table 1). The department estimates it will handle a daily average of 192 more institutional wards and 138 fewer parolees in 1978–79 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

	1976–77	*1977–78*	*1978–79*
Reception centers	645	650	665
Facilities for males	3,305	3,365	3,542
Facilities for females	119	125	125
Subtotal (institutions)	4,069	4,140	4,332
Change from prior year	—	71	192
Parole caseload	7,486	7,396	7,258
Change from prior year	—	−90	−138
Total Wards	11,555	11,536	11,590

Diagnosis

All wards received by the Department of the Youth Authority undergo a diagnosis procedure at one of the four 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 considered necessary to determine those programs that 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 as the wards move through the department's rehabilitation program from the time of referral to final discharge.

ANALYSIS AND RECOMMENDATIONS

The department's programs, as proposed in the Governor's Budget, represent a net General Fund cost of $147,988,086 and 4,145.1 personnel-years of effort. Additionally, the department anticipates budget-year reimbursements amounting to $11,472,680 and federal grants totaling $448,455 for a total expenditure program of $159,909,221.

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
Department of the Youth Authority

	Estimated	Proposed	Change	
Funding	*1977–78*	*1978–79*	*Amount*	*Percent*
General Fund	$142,516,655	$147,988,086	$5,471,431	3.8%
Reimbursements	13,451,725	11,472,680	−1,979,045	−14.7
Federal Funds	559,496	448,455	−111,041	−19.8
Totals	$156,527,876	$159,909,221	$3,381,345	2.2%
Programs				
Youth Authority Board	$1,632,721	$1,676,904	$44,183	2.7%

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

Personnel-years	41.1	40.7	−.4	−1.0
Administration	6,405,149	6,345,632	−59,517	−1.0
Personnel-years	219.4	203.5	−15.9	−7.2
Community Services	23,718,715	23,487,381	−231,334	−1.0
Personnel-years	61.0	64.0	3.0	4.9
Rehabilitation Services	104,542,629	108,343,247	3,800,618	3.6
Personnel-years	3,721.9	3,763.8	41.9	1.1
Research	2,228,662	2,056,057	−172,605	−7.7
Personnel-years	85.5	73.1	−12.4	−14.5
Legislative Mandates [a]	18,000,000	18,000,000	—	—
Totals	$156,527,876	$159,909,221	$3,381,345	2.2%
Personnel-years	4,128.9	4,145.1	16.2	—

[a] Chapter 1071, Statutes of 1976, relating to the juvenile justice system, amended by Chapter 1241, Statutes of 1977 (AB 84).

Major Shift in Distribution of Parole Resources

The budget reflects the closure of several special parole programs and the reallocation of staff to provide an equal level of service to parolees throughout the state. The programs to be closed are:

1. Five community parole centers, which provide an intensified level of service and surveillance to about 615 parolees in Los Angeles (four centers) and Stockton (one center).
2. The J.O.B.S. program, which assists parolees in securing and retaining employment in Oakland, Berkeley and Richmond.
3. The San Francisco Project, which provides more intensive services to approximately 400 parolees in San Francisco

The parole reorganization proposal also includes 15 additional clerical positions and $195,810 on a workload basis. It is discussed later in this Analysis.

Additional Funds for Out-of-Home Placements

The department requests an additional $125,304 to cover increased costs in acquiring adequate out-of-home placements for parolees not living independently or returning to their natural homes. Chapter 1071, Statutes of 1976, prohibits the placement of "status offenders" (run-aways, for example) in secure detention facilities. This has resulted in an increased demand for nonsecure facilities such as foster and group homes. Since the supply of such facilities has not increased with the demand resulting from Chapter 1071, and because counties and private agencies also utilize foster home placements, costs for such facilities have risen significantly. The additional $125,304 should permit the department to compete more adequately for desirable homes, thereby reducing the difficulty the department has experienced in placing wards in foster homes.

Medical-Psychiatric Programs Expanded

The budget includes $1,011,923 (including $250,000 for minor capital outlay) to expand the department's medical-psychiatric program to accommodate 115 wards. Funds will be used to upgrade existing intensive counseling programs at the Preston School and the Northern Reception Center Clinic to medical-psychiatric programs, and to slightly increase funding for the existing medical-psychiatric program located at the Southern Reception Center/Clinic. This is discussed later in the Analysis.

Institutional Population Projected to Increase

The budget includes $968,980 to accommodate an additional 192 wards in the institutions. Current-year average daily institutional population is projected to be 4,140 (16 less than budgeted), and an average daily population of 4,332 wards is projected for the budget year. Based on current institutional population trends, we believe that the projected budget-year increase is reasonable. However, a technical budgeting problem concerning funds required for the increased population is discussed later in this Analysis.

Funds Provided to Reimburse Counties for Costs Arising from Major Revision of Juvenile Justice Procedures (Chapter 1071, Statutes of 1976)

Chapter 1071 made major changes in the way juveniles are processed by the criminal justice system at the local level. These changes were outlined on page 666 of the 1977–78 Analysis. As originally approved, Chapter 1071 contained an "offsetting savings" local cost reimbursement disclaimer. Chapter 1241, Statutes of 1977, (AB 84) deleted the disclaimer and appropriated $18 million to pay county claims resulting from Chapter 1071 during the period January 1, 1977, to June 30, 1978. The Governor's Budget requests $18 million to continue such reimbursements in 1978–79.

Technical problems in Chapter 1241 have precluded payment of any claims. However, a bill (AB 2091) has been introduced to resolve these problems. While claims have been submitted by some counties, they have not been reviewed or validated. However, based on the limited information that is available, the funding request appears to be a reasonable approximation of reimbursement requirements on a full-year basis. We will monitor this program carefully and be in a better position next year to evaluate cost projections.

Other Program Changes

Maintenance Positions for Northern Conservation Camps and Parole. The budget includes five maintenance mechanics for the four northern conservation camps and the community residential parole center in Los Angeles. They will be funded primarily from savings in overtime and travel costs otherwise incurred in sending institutional maintenance staff to these locations.

Fiscal Monitoring and Internal Auditing. The department requests $83,063 and three positions to assist management in insuring the fiscal integrity of department operations, which entails separate budgets for each of the ten institutions, five camps and over 40 parole and administrative offices. The managers of these programs have independent authority to purchase goods and services for their operations. Accounting functions are performed at seven locations.

Youth Authority Board Staff. The budget includes $16,520 and one position to augment the board staff. The position will review board policies for compliance with statutory law and court decisions, write proposals for board policy consideration and prepare board policy manual revisions.

Implementation of Statewide Logistics and Material Management Sys-

tem (SLAMM). The department requests $35,965 and 3.2 positions to implement SLAMM. This computerized system, developed by the Department of General Services, is designed to improve the procurement and management of materials, thereby reducing overall state costs. The 3.2 positions will provide five hours a week of additional staff time at each of the institutions and camps and three hours a week at each of the four parole regions. Savings from the implementaiton of SLAMM should occur in future years.

Perimeter Security Youth Training School. The budget includes 1.7 positions costing $37,459 to provide increased perimeter security daily from midnight to 8 AM. The positions will be used to deter escapes and prevent intrusions of contraband and unauthorized persons.

Feeding Cost for Increased Institutional Population Overbudgeted

We recommend a reduction of $65,450 (Item 286) to offset reimbursements resulting from the department's participation in the National School Lunch program.

The budget includes $968,980 to provide institutional staffing and operating monies to accommodate an additional 176 wards over the level currently budgeted. This sum includes approximately $800 per ward for feeding. However, $372 of this amount wil be reimbursed by the federal government because of the department's participation in the National School Lunch Program. Consequently, General Fund requirements for the additional ward population can be reduced by $372 per ward or a total of $65,450.

Offsetting Grant Overhead Funds

We recommend that the overhead portion of monies received to offset costs of administering grant programs be used for that purpose for a General Fund savings of $214,500 (Item 286).

The department is budgeted to receive grant awards totaling $6,746,326 in 1978–79. Of that amount, $369,503 (a percentage of each grant) is available to offset departmental costs for administering the grant program. For example, the $222,222 grant entitled "Citizens' Initiative Project" (which involves the assignment of volunteers to work with parolees in Sacramento and Hayward) includes $33,202 of indirect cost funds.

Each grant received by the department requires accounting services. Most grants are not large enough to require (and therefore budget for) a full-time accounting position. In such cases, indirect cost monies would usually be included in the grant to offset its accounting costs. Of the $369,503 to be received as unrestricted indirect cost reimbursements, only $118,260 is allocated to specific positions as shown in Table 3.

Table 3
1978–79 Indirect Cost Funds
Department of the Youth Authority

Available for Allocation		$369,503
Allocated:		
Fiscal monitoring team	$82,590	
Budget analyst	23,340	
Stenographer, facilities planning	12,330	
Total Allocated		118,260
Not presently allocated		$251,243

The $251,243 not allocated represents resources available to the department for which no expenditure is currently planned. We believe that there are several other positions, currently funded from the General Fund, which should be supported from grant overhead cost funds. This would be consistent with the state policy to recover such costs from the grant fund source. These positions, shown in Table 4, are essential to the grant process and would not be required if the grant program did not exist.

Table 4
Grant Related Positions
Department of the Youth Authority

Organizational Element	*Personnel-years*	*1978–79 Cost*
Division of Program and Resources Development	5.0	$138,950
Personnel Division	1.0	15,100
Accounting Division	4.0	60,450
Total	10.0	$214,500

The Division of Program and Resource Development is the departmental unit which seeks and administers grants. The equivalent unit in the Department of Corrections is funded from indirect cost monies. The personnel and accounting divisions positions identified in Table 4 represent the department's estimate of the minimum staff required in those divisions to administer the grant program. Consistent with the purpose for which the federal government includes indirect cost funds in grants, we believe that the above positions should be financed with federal funds for a General Fund savings of $214,500 (Item 286).

The remaining indirect cost funds of $36,743 should be expended only for administrative services to grant-funded activities. Expenditures from this amount, as well as from any additional indirect cost funds received by the department, should allow savings to the General Fund unless the department can substantiate the need for additional positions or operating expenses to administer grants. Such expenditures should be considered an increase in the level of service and reported to the Legislature in accordance with Section 28 of the Budget Act.

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

Camp Programs Under-utilized

We recommend that 6.8 positions added last year to permit the department to open an institution based camp at the Ventura School be deleted for a savings of $148,480 (Item 286).

Prior to 1977–78, the department operated five separate conservation camps, one camp-type program at the El Paso de Robles School, and a centralized pre-camp forestry training program at the DeWitt Nelson Training Center. Last year, the Govenor's Budget reflected termination of the centralized training program and the opening of two additional institution based camps: one at DeWitt Nelson and one at the Ventura School. The one at Ventura was to be co-educational to give female wards an opportunity to participate in a camp program.

Because the population levels of the five camps were significantly below the budgeted level in early 1977, we recommended (subsequent to publication of the 1977–78 Analysis) that one of the five conservation camps be closed and the facility turned over to the California Conservation Corps. The department responded that it needed to retain the camp because it anticipated that camp population levels would be at budgeted capacities by June 30, 1977. While the camp population did increase, the five camps were 39 wards, or more than 10 percent, below the budgeted level on June 30. Since that time, camp populations have been declining and by the end of 1977 stood at 292 or 88 under the budgeted level. This occurred despite a significant increase in ward camp pay which was implemented administratively on July 1, 1977.

Because the camp programs represent significant capacity and all associated staffing costs are incurred even though the ward population is less than budgeted, we believe that the department should develop procedures to insure that all qualified wards are assigned to the camp program. Should the type of wards committed to the department preclude such action, the department should close at least one of the camps.

We understand that the department has delayed opening the camp program at the Ventura School until at least March 1978 in order to study the camp population problem. Because of this, we recommend that the Ventura School camp not be opened until the department has demonstrated the capacity to *sustain* ward populations in the existing camp programs at the budgeted level. The staff added last year to permit the Ventura School camp to be opened should be deleted for a savings of $148,480 (Item 286).

If, despite inadequate camp population levels, the department desires to open a co-educational camp at the Ventura School, it should transfer either the DeWitt Nelson camp or one of the four Northern Conservation Camps to Ventura.

Additional Funds Not Needed to Evaluate Benefits of a Reduction in the Ward/Staff Ratio

We recommend deletion of 11.1 positions requested to test whether lower open-dormitory population levels reduce danger to wards and staff for a savings of $220,190 (Item 286).

We further recommend that an evaluation be conducted at the Fred C. Nelles School where reduced population levels already exist.

The Governor's Budget includes $220,190 to allow the department to open an additional living unit at DeWitt Nelson to reduce population density in three units which now house a total of 150 wards. The department's plan is to assign these wards to four units (about 37 wards per unit) and to evaluate the effect of that reduction on ward and staff safety.

We believe that additional pilot or demonstration projects are not required for this purpose. The department is currently evaluating a federally funded project at the Preston School in which the population level has been reduced to 40 wards in one living unit and the staffing of another unit has been increased. Additionally, the department's research section is planning to study the relationship between population density and violence at the Youth Training School (YTS). Even though YTS is not an open dormitory facility, the results of that study should be useful in evaluating the advantages of lowering the population levels in living units throughout the department.

We believe that the proposed evaluation could be conducted at the Fred C. Nelles School which, for several years, has had reduced populations in its living units. About half of the units at the Nelles School have 30 wards with the balance at 40 wards. Because the evaluation of the impact of reduced ward/staff ratios could be conducted at the Nelles School without additional staffing costs, we recommend that funds included for additional staffing at Dewitt Nelson be deleted for a savings of $220,190 (Item 286).

Ward Grievance Staffing

We recommend that the department, during budget hearings, identify all security parole and treatment positions diverted to ward grievance duties.

The Governor's Budget requests 3.4 positions costing $64,130 to provide perimeter security for the Southern Reception Center/Clinic from 3 PM to 7 AM daily. In the current year, the department diverted an existing security position to perform wards' rights functions. We believe that this action may be indicative of other staff diversions implemented throughout the department to comply with Chapter 710, Statutes of 1976.

Chapter 710 established a procedure for responding to ward complaints. At the time the bill was under consideration, the department assured both the Department of Finance and the Legislature that no additional costs would be incurred in implementing it because the department already had administratively established a system conforming to the bill's provisions.

While workload requirements may have changed since that assurance was given, we have not been so advised and the department has not requested additional staff to implement Chapter 710. Therefore, we recommend that, during budget hearings, the department report on the numbers of security, parole and treatment personnel who are performing ward grievance duties to indicate the costs of Chapter 710 and the degree to which other activities have been reduced.

Medical-Psychiatric Staff Not Needed Until Capital Improvements Completed

We recommend that funds for the Preston staff component of the medical-psychiatric program be phased in to coincide with completion of the

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

new building and other required facilities modifications for a savings of $78,000 (Item 286).

The budget includes $1,011,923 to upgrade three existing programs to provide medical-psychiatric facilities for 115 wards. Two of these programs are located at the major reception centers (Sacramento and Norwalk) and one is at the Preston School (Ione). Because the department currently operates a medical-psychiatric program at Norwalk, only minor staff and facility adjustments will be required there.

While each of the three sites requires some physical improvements, only the Preston site requires significant new construction (a 40′ by 60′ modular building, as well as extensive modification to an existing dormitory). Assuming timely processing of required contracts by the Department of General Services, the department estimates that the building can be ready for occupancy by November 1, 1978. Despite this delay, the budget includes funds to fill the 16.9 new positions Preston requires for the program, on July 1. At that time any new employees would have to be housed in temporary facilities, and wards probably would not be housed in the program unit because of construction activity. Even existing employee offices will be severely disrupted by required construction.

Generally staff for new programs are authorized 30 days before the program is actually opened to permit them to develop working relationships, receive some training and exposure to an institutional setting, and take care of personnel, pay and other requirements. Consistent with that policy, we believe that most of the new staff for this program should not be hired before October 1, 1978. However, because of the significant program changes at Preston, we believe that it is not unreasonable to hire a few key people such as the program administrator and staff psychiatrist somewhat earlier than that date. Hiring staff in accordance with our recommendation would result in General Fund savings of $78,000 (including $13,500 which reflects double-budgeting of training needs).

Should construction of the building be delayed, the department should also delay hiring most of the staff until 30 days before the projected availability of the building. The Department of Finance should revert to the General Fund any monies saved by such a hiring delay.

Modesto Training Academy Not Fully Utilized

We recommend that the department fully utilize the Modesto Training Academy by sending new employees to the first available class following their employment.

The Department of Corrections and the Youth Authority jointly utilize the Correctional Training Academy at Modesto for training most newly hired personnel. The program is designed to equip new group supervisors and youth counselors (Department of the Youth Authority) and correctional officers (Department of Corrections) and ancillary personnel with the basic skills necessary to work in an institutional setting. The curriculum includes, for example, the training mandated by Penal Code Section 832 (powers of arrest, etc.), and training in room and body search techniques, report writing, self-defense, and disciplinary procedures.

According to training academy staff, such training is most effective when a new employee is sent to the academy shortly after his/her employment begins. A few days of institutional exposure, under the supervision of experienced personnel, is probably all that is desirable for new employees prior to academy attendance. Failure to receive training reasonably soon after job placement may result in employees' acquiring poor work habits, and being unable to respond properly to hazardous situations.

We believe that new staff should be scheduled for academy attendance in the first month following employment. Based on limited data collected by academy staff, it appears that less than one-third of the Youth Authority employees (11 of 38 in late 1977) are attending within their first three months of employment. Moreover, the department is not using all of its authorized slots at the academy. We recommend that the department, to the maximum extent possible, send new employees to the first available class after their employment.

Simplify Cost Accounting for Modesto Training Academy

We recommend that the contract arrangements with the Department of Corrections for operation of the Modesto Training Academy be simplified.

The Governor's Budget includes $372,050 as the Department of the Youth Authority's share of the cost of operating the Correctional Training Academy. This amount, which is transferred to the Department of Corrections by contract, includes funds for instructional costs, travel and per diem of students. It also includes the money necessary to hire back-up personnel to cover the student's work shift in the institution. Consequently, a considerable portion of the funds originally transferred to the Department of Corrections are *returned* to the Department of the Youth Authority.

We recommend that the department transfer only its portion of the instructional costs to the Department of Corrections and retain those funds which would ultimately be returned. This would simplify accounting procedures and produce minor cost savings to both departments.

Parole Reorganization

The Governor's Budget reflects a reorganization of the department's parole program with the goal of providing more services to, and surveillance of, parolees during the period immediately after institutional release. The reorganization includes a revision of the clerical staffing formula and the closure of several special parole programs whose staff would be redistributed to regular parole offices throughout the state.

Clerical Staffing Formula. The number of clerical positions authorized for each regular parole office is based on a formula adopted over 20 years ago. It provides one clerical position for each 220 cases plus one-half position for each supervisor. Given the significant increase in paperwork resulting from court decisions regarding due process for wards whose parole is in jeopardy, this level of clerical assistance is inadequate and has necessitated the use of parole agents to perform clerical tasks. The department proposes to modify this formula to provide one clerical position for three parole agents, and retain the one-half position for each supervisor. The

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

budget contains 15 additional clerical positions at a cost of $195,810 to implement the new formula.

Parole Agent Utilization. Each regular parole office is assigned one non-case-carrying agent (violations specialist) to handle parolees whose behavior may result in termination of parole or other disciplinary action. These positions were authorized as a result of recent court decisions, re *LaCroix* and re *Valrie.* Because of variations in the number of cases requiring special handling, the specialists in some offices are under-utilized. In order to equalize workload, the department proposes to assign all specialists to the pool of regular case-carrying agents.

Parole Reorganization

We recommend that the department continue to operate and evaluate the special parole programs which are proposed for termination.

During the past several years, the department has established a number of parole programs designed to provide special, more intensified services for parolees, generally in high crime, high unemployment areas of the state. These projects offer such diverse services as lodging, job training, academic studies, and group counseling. Despite substantial allocation of resources to these projects, the department has failed to provide adequate evaluation of their accomplishments. It is proposing to terminate a number of them in the budget year and reallocate their resources to the regular parole program. Only the SPACE program in Los Angeles and the Park Centre in San Diego are proposed for continuation. Programs to be terminated are:

1. The San Francisco project, which serves 400 parolees in the San Francisco area. It was officially formed in July 1975 by combining two special projects and one regular parole office. The program is staffed at a level significantly higher than regular parole offices and employs other professional staff. Parolees are phased through the program and receive services prescribed on an individual basis. For example, some wards receive schooling at the project while others are placed in smaller caseloads where their behavior can be more closely observed.

2. The J.O.B.S. program, which was established in July 1975 to assist parolees in Oakland, Berkeley and Richmond in obtaining employment. J.O.B.S. staff work in conjunction with regular parole agents to place parolees in jobs or training leading to employment.

3. Five community parole centers (CPC's) which serve a total of 615 parolees, four of which are located in the Los Angeles area and one in Stockton. Six CPC's were established in 1966–67, but the one in San Francisco was integrated into the San Francisco Project described above. The centers are staffed at a level higher than regular parole offices. They also employ a teacher and a group supervisor who generally assists wards in obtaining employment.

The Department of Finance in its October 1976 review of the department's parole program concluded that CPC's should be discontinued in 1978–79 unless the Youth Authority can demonstrate that they outperform regular parole units in urban target areas. With respect to the other special programs, including the San Francisco Project, the department stated that they should be continued because they are new and experimental. However, the department recommended that termination dates be established and followed unless the Youth Authority documented the programs' effectiveness.

After reviewing the Department of Finance report and the Youth Authority's response to it, we generally concur with the findings. We believe that the San Francisco Project, as well as the J.O.B.S. program, should be continued until thoroughly evaluated. We see little justification, in light of the Department of Finance study, for transferring the resources of these projects to enrich the regular parole program.

Because the Department of the Youth Authority has not documented the effectiveness of the CPC's, these programs, according to the Department of Finance report, should be terminated in 1978–79. The budget reflects this action but proposes to transfer the resources to the regular parole program. We believe the CPC's should be evaluated. They represent a considerable state investment in an innovative attempt to deal with parolee needs and problems. We therefore recommend that the CPC's be retained and evaluated.

Pending completion of evaluation reports we further recommend that the San Francisco Project and the J.O.B.S. program be given termination dates of June 30, 1982, and the CPC's termination dates of June 30, 1980.

Use of Parole Volunteer Coordinators Not Defined

We recommend deletion of four proposed volunteer coordinators in the parole regions for a savings of $104,900 (Item 286).

The budget contains $211,900 for 8.5 new positions to formalize and staff existing and proposed volunteer programs. Four and one-half positions will supplement 5.5 existing full time and part-time positions in the institutions to provide one full-time volunteer coordinator at each of the ten institutions. We believe that these positions are useful because they can provide centralized control, training and supervision to numerous volunteers serving a significant number of wards at each location.

The remaining four new positions are requested to provide one volunteer coordinator for each parole region. They will conduct pilot programs for which no detail or work plans are currently available. Even the locations of the programs are unknown.

Over the years, the department has participated in a number of grant-funded projects which made use of volunteers. It is currently operating, in Sacramento and Hayward, a grant-funded program entitled "Citizens Initiative Project" which utilizes volunteers to improve the integration of parolees into society. It began receiving parolees in early 1977. The project is staffed with 8.5 positions and will expend $222,222 in the budget year.

We believe that additional pilot projects should not be approved until performance data are available from the "Citizens' Initiative Project". Moreover, in view of the staff needed to operate that project, we do not believe that one-person pilot projects are viable. Therefore, we recommend that the four parole positions be deleted for a savings of $104,900 (Item 286).

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

County Reimbursements for Detaining Certain Youth Authority Parolees Overbudgeted

We recommend that funds included in the department's support budget to reimburse county costs incurred in detaining certain Youth Authority parolees be reduced to $75,500 and transferred to a new local assistance item for a net savings of $29,160.

Chapter 1157, Statutes of 1977 (AB 166) requires the department to reimburse counties for detaining Youth Authority parolees, when the detention is related solely to the violations of the conditions of parole and not to a new criminal charge. The act, an urgency measure, appropriated $73,000 based on the department's estimate of its annual cost. The department's support budget (Item 286) includes $104,660 to provide such reimbursements for 1978–79.

Chapter 1157 was patterned after Chapter 1237, Statutes of 1974, which requires the Department of Corrections to reimburse counties for detaining adult parolees under similar conditions. Funds for payments required by Chapter 1237 are classified as local assistance in the Governor's Budget and appropriated by a separate item in the Budget Bill (Item 285).

Monies required for transportation of persons committed to the Department of the Youth Authority and state support for construction, operation and maintenance of county juvenile homes and camps; county juvenile delinquency prevention commissions; delinquency prevention projects and research and training grants; and the probation subsidy program are classified as local assistance in the Governor's Budget and appropriated by separate items in the Budget Bill (Items 287 to 292). We believe that costs attributable to Chapter 1157 should be similarly classified.

We further recommend that the $104,660 requested be reduced to $75,500 for a net savings of $29,160. When Chapter 1157 was under consideration the department estimated its costs to be $72,900 based on 2,916 confinement days in county jails at $20 per day ($58,320) plus 324 confinement days in juvenile halls at $45 per day ($14,580). The budget request is based on the same number of confinement days but higher daily costs ($30 for jails and $53 for juvenile halls).

According to the Department of Corrections, the 1976–77 unweighted average amount paid per day for county jail costs under Chapter 1237 was $18.36. We understand that when the Department of the Youth Authority begins to make payments under Chapter 1157 it will use the rates approved by the Department of Corrections. We believe that the $30 rate used in developing the budget is excessive and that the $20 rate used by the department in estimating the cost of Chapter 1157 is more accurate and justified by the Department of Corrections' actual experience. We therefore recommend that the department's request be reduced to $75,500 and placed in a separate local assistance item. The net savings would be $29,160.

Probation Subsidy Program Historically Overbudgeted

We withhold recommendation on the probation subsidy program (Item 292) because it has been overbudgeted for five consecutive years. Additional expenditure data will be available before the May revision to the budget.

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.

As shown in Table 5, this program has been consistently overbudgeted for the last five 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 5

Probation Subsidy Savings

	1973–74	*1974–75*	*1975–76*	*1976–77*	*1977–78 (Est.)*
Budgeted	$23,742,000	$24,100,665 [a]	$21,687,000	$19,687,000	$18,387,000
Expended	20,410,354	22,248,284	20,759,555	16,966,440	15,430,000
Savings	$3,331,646	$1,852,381	$927,445 [b]	$2,720,560	$2,957,000

[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.

Last year the Legislature, on our recommendation, reduced the 1977–78 appropriation for the probation subsidy program to $18,387,000, which was the 1976–77 expenditure estimate shown in the 1977–78 Governor's Budget. As shown in Table 5, actual 1976–77 expenditures were less than $17 million.

Estimated expenditures for 1977–78 are $15,430,000 or almost $3 million less than appropriated. Much of this savings reflects further decline in county participation in the program. The 1978–79 budget request is the same as the current-year expenditure estimate. We believe that probation subsidy funding requirements will continue to decline. Additional current-year expenditure data will be available prior to the May revision to the Budget. On the basis of that data, a more reliable estimate of budget-year requirements for the probation subsidy program can be developed.

Health and Welfare Agency

CALIFORNIA HEALTH FACILITIES COMMISSION

Item 294 from the California Health Facilities Commission Fund — Budget p. 758

Requested 1978–79	$1,394,294
Estimated 1977–78	1,207,252
Actual 1976–77	996,652
Requested increase $187,042 (15.5 percent)	
Total recommended reduction	$82,109

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *New Positions for Health Facility Reports and Related Activities. Reduce Item 294 by $82,109.* Recommend deletion of 6.5 positions.	660

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 facilites in California, in addition to the hospitals. The purposes of developing these systems of reporting requirements were 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

The budget proposes an appropriation of $1,394,294 from the California Health Facilities Commission Fund for support of the commission during the 1978–79 fiscal year, an increase of $187,042, or 15.5 percent, above the current year. This increase provides for the continuation of three staff service analyst positions which were established during the current year, the creation of six new positions, and 0.5 personnel years in temporary help.

Positions for Research

We recommend approval of a research manager III, a staff services analyst and related expenses at a cost of $73,836.

The present reseach staff consists of three professional and one clerical position. An additional staff services analyst position has been established during the current year and the budget proposes to continue this postion and add a research manager III. The research unit in the commission has conducted studies on the various cost components and other elements of health facility care. In view of the increasing need to have this type of information available to the Legislature as it considers the issue of rising costs in the delivery of health care services, we believe the requested positions are justified.

Positions for Processing Health Facility Reports

We recommend deletion of 6.5 positions for the processing of health facility reports and related activities at a savings of $82,109.

The budget proposes establishing two clerk I, one clerk-typist I, one senior clerk-typist position, and a 0.5 temporary help position to assist in the processing of health facility reports in the budget year. One staff services analyst position, established in the current year, is proposed for continuation in the budget year for work on changes in the accounting manual and to respond to requests for extensions in filing the reports. The accounting technician will assist in the budget and personnel functions of the commission.

Pursuant to Chapter 1171, Statutes of 1974, the commission developed a uniform accounting and reporting system for the approximately 1,200 long-term care facilities in California. Approximately 600 of the 1,200 facilities have a fiscal year of January 1–December 31. Effective January 1, 1977, compliance with the system was required of the facilities with fiscal years beginning on that date. The remainder complied when their fiscal year started.

The law requires that the facility accounting reports be submitted within four months of the end of the fiscal year and the commission estimates that it will be receiving these reports beginning in April 1978. Consequently, last year the Legislature approved the request by the commission for six new positions, effective March 1, 1978, to process the anticipated initial 600 long-term care facility reports. We have received no information indicating that the positions established March 1 cannot process the initial 600 reports and the balance of the reports on a continuing basis. In the absence of any new statutory authority extending the responsibilities of the commission, we do not believe any additional positions are justified.