STATE WATER RESOURCES CONTROL BOARD —Continued

The minimum fee and the fee schedule were last increased in 1969. While fees have remained constant, board costs for water rights applications processing have tripled, from $733,584 to $2,161,572 over that decade. Fees are expected to provide $32,217 in 1979–80. The General Fund supports the remainder of the program cost. We recommend that legislation be enacted to increase the minimum fee to at least $20, and at least double the fee schedule.

Health and Welfare Agency

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES AND AREA BOARDS ON DEVELOPMENTAL DISABILITIES

Items 245–246 from federal funds Budget p. 603

Requested 1979–80	$2,296,014
Estimated 1978–79	2,280,928
Actual 1977–78	2,296,014
Requested increase $15,086 (0.7 percent)	
Total recommended reduction	None

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
245	State Council on Developmental Disabilities	Federal	$2,296,014
	Support		(574,004)
	Transfer to Program Development Fund		(688,804)
246	Transfer to Area Boards on Developmental Disabilities		(1,033,206)

GENERAL PROGRAM STATEMENT

Chapter 1365, Statutes of 1976, provides that the State Council on Developmental Disabilities shall be:

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

Chapter 1365 also provides that no more than 25 percent of the Public Law 94-103 funds received by the state in any one year shall be spent by the state council for its operating costs, and no more than 30 percent may be allocated to the Program Development Fund.

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 statutes.

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.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes $2,296,014 in federal funds for support of the Council on Developmental Disabilities and the areas boards in 1979–80. This is an increase of $15,086, or 0.7 percent, above estimated current year expenditures. The schedule of expenditures in Item 245 shows that $1,033,-206 of the funds available are proposed for support of the area boards. The budget identifies 11 positions attached to the council and 35 positions for the area boards. This total of 46 positions is the same level of staffing provided in the current year.

Chapter 432, Statutes of 1978, placed the council in the Health and Welfare Agency for administrative purposes. During the current year, the federal funds which support the activities of the council and 13 area boards through PL 94-103 are included within the budget of the Department of Developmental Services. The proposed budget for the first time identifies this expenditure separately.

Health and Welfare Agency

HEALTH AND WELFARE AGENCY DATA CENTER

Item 247 from the Health and Welfare Agency Data Center Revolving Fund — Budget p. 605

Requested 1979–80	$6,599,621
Estimated 1978–79	6,296,328
Actual 1977–78	1,666,325
Requested increase $303,293 (4.8 percent)	
Total recommended reduction	$65,000

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Personnel Savings. Reduce by $65,000.* Recommend amount budgeted for personnel services be reduced due to improved computer operations. 569

GENERAL PROGRAM STATEMENT

The Health and Welfare Agency (HWA) Data Center is one of four major state data processing centers authorized by Chapter 787, Statutes of 1972. The center provides computer support to the agency's constituent departments and offices. The cost of the center's operation is fully reimbursed by its users, and its annual budget reflects customer requirements for computer support.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $6,599,621 from the HWA Data Center Revolving Fund for support of the data center in 1979–80. This is an increase of $303,293 over the estimated current year expenditures.

A number of significant developments are anticipated during the budget year even though the proposed spending authorization reflects a relatively small increase of 4.8 percent. Several of these relate primarily to new or expanded departmental data processing applications. In addition, the center plans a number of equipment-related activities which, when implemented, will provide the center a substantial increase in information-processing capability. These activities include the installation of one or more new computers, the continued phase-out of older computers, and the use of new and more efficient technology to replace current processes, such as the acquisition of a mass storage unit to reduce costly magnetic tape operations.

The center intends to implement its equipment acquisitions within the proposed budget. This is possible because the price of computing equipment per unit of power has dropped substantially. As a result, computing equipment with significant increases in capacity can be leased at approximately the same or less cost than current equipment leases.

Reduction per Sections 27.1 and 27.2—Budget Act of 1978

The budget shows a current year reduction of $20,000 in the operating expenses and equipment category in compliance with Section 27.1 of the 1978 Budget Act. No personnel reductions occurred.

Significant Plans and Accomplishments

During the current year the center has acquired, on an interim basis, an IBM 370/158 computer which was released by the University of California at Los Angeles Medical Center. The computer is being leased, and accrued purchase option credits have been transferred to the center. Acquisition of this computer has made possible the release of one obsolete IBM computing system, and the scheduled release of older Univac and Burroughs computers during the budget year. These replacements enable a net reduction in computer operations support personnel. The interim IBM 370/158 computer will be replaced by a new and more cost-effective computing system scheduled for installation during the first half of the budget year. The new system, which will be in the class of an IBM 3033, will be acquired on a competitive bid process. The center is exploring the feasibility of installing a state-operated computer system in Los Angeles to process the Employment Development Department's Job Bank application in addition to computing equipment upgrades. This action would result in net savings by allowing the center to perform work now done by a commercial provider.

The acquisition of a hospital management system for use by the state hospitals and the Yountville veterans facility is another potentially significant matter under consideration. At present, hopsital management representatives and the center are evaluating the viability of acquiring operational computer programs from the private sector at a fraction of the cost that would be incurred by the state in developing its own programs.

Implementation of these improvements and others in the planning stage are indicative of progress toward the Data Center's goal of more effective use of computer technology.

Personnel Reductions

We recommend a reduction of $65,000 because improved computing efficiency will permit reductions in personnel.

The center plans to install a new computer output printing system in the current year and a mass storage unit in the budget year. According to the center's feasibility study report, installation of the printing system could result in the elimination of one computer operator position. However, the budget does not reflect this reduction.

Additionally, the center has recently forwarded to the State Data Processing Management Office in the Department of Finance a feasibility study report supporting the acquisition of a mass storage unit in order to reduce the cost of magnetic tape operations.

According to Data Center staff, the installation of the new printing system and the mass storage unit will result in a net personnel savings which are estimated at $65,000 for the budget year. We therefore recommend that the amount budgeted for personnel services be reduced by $65,000.

Health and Welfare Agency

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Items 248–250 from the General Fund — Budget p. 608

Requested 1979–80	$4,298,746
Estimated 1978–79	3,425,703
Actual 1977–78	N/A
Requested increase $823,043 (25.5 percent)	
Total recommended reduction	$283,849

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
248	State Operations	General	$1,086,331
Chapter 1162, Statutes of 1977 Family Physician Training		General	88,370
Chapter 1300, Statutes of 1978 Family Physician Training		General	100,000
Total Available			1,274,701
Balance Available in Subsequent Years			−81,455
Total Expenditures			1,193,246
249	Local Assistance	General	—
Chapter 1300, Statutes of 1978		General	2,832,500
250	Legislative Mandate	General	273,000
Total Expenditures			$4,298,746

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Compliance with PL 93-641. Recommend Secretary of Health and Welfare Agency pursue efforts to obtain amendments to PL 93-641, the federal health planning law. 572
2. *Health Professions Career Opportunities Program. Reduce Item 248 by $267,368.* Recommend reduction of amount budgeted for Health Professions Career Opportunities program. 573
3. *Contracts and Equipment. Reduce Item 248 by $16,481.* Recommend reduction in amount budgeted for unspecified contracts and equipment. 574
4. *Legislative Mandate. Transfer $273,000 contained in Item 250 to Item 248.* Recommend deletion of Item 250 and transfer of funds to Item 248 to eliminate the need to reimburse local agencies for fees paid under Chapter 854, Statutes of 1976. 574
5. *Song-Brown Program.* Recommend office justify failure to comply with supplemental language requiring submission of evaluation design to fiscal committees. Further rec- 575

ommend supplemental language requiring reappropriation in the 1980–81 Governor's Budget if the office wishes to continue the program.

GENERAL PROGRAM STATEMENT

The Office of Statewide Health Planning and Development is responsible for developing the foundation for a state health policy which assures the accessibility of needed, appropriate health services to the people of California at affordable costs. The office includes the Divisions of Certificate of Need, Facilities Development, Health Planning, Health Professional Development and Administration. It administers five programs which have the following functions:

1. Health Planning—Overall responsibility for carrying out health planning activities and development of statewide health policy.
2. Certificate of Need—Administration of the state's certificate of need law which requires approval of capital outlay projects proposed by licensed health facilities.
3. Health Professions Development—Responsibility for health manpower planning and administration of special manpower projects.
4. Facilities Development—Review of health facility construction plans to assure conformance with federal and state building requirements, and financial analysis and review of applications for specified health facility construction loans.
5. Special Studies—Development of a master plan for services to children and youth.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a 1979–80 General Fund expenditure of $4,298,746 for the Office of Statewide Health Planning and Development, which is an increase of $823,043 (25.5 percent) over the amount estimated in the budget to be expended during the current year. The primary components of the increase are: (1) $267,368 to establish the Health Professions Career Opportunity Program, (2) $123,000 for legislative mandates and (3) $500,000 in funds budgeted for the Song-Brown Family Physician Training program.

The budget also proposes the following expenditures:

1. $1,839,228 from the Hospital Building Account, Architecture Public Building Funds, for review of the seismic safety of proposed health facilities.
2. $275,558 from the Health Facility Construction Loan Insurance Fund for review of loan applications.
3. $2,716,707 in federal funds.

The office's total proposed expenditures from all funds for fiscal year 1979–80 are $9,130,239, an increase of $967,891 (11.8 percent) over the current year.

Compliance with P.L. 93-641

We recommend that the Secretary of the Health and Welfare Agency pursue efforts to obtain amendments to PL 93-641, the federal health planning law.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

Potential Budget Deficit. The federal Department of Health, Education and Welfare (HEW) has notified the Secretary of the Health and Welfare Agency that the funds provided to the office under PL 93-641, the Federal Health Planning Law, will be eliminated as of October 1, 1979, unless California's health planning law conforms with PL 93-641 requirements. The office currently receives $2.6 million annually in PL 93-641 funds. The office relies on these funds to operate its health planning and certificate of need programs, and would probably request fee increases and/or General Fund support to continue these operations if PL 93-641 funds are eliminated.

HEW has also notified the secretary that if California is still out of compliance on October 1, 1980, an estimated $200 million from a variety of HEW grant sources may also be eliminated. Grants affected would be those awarded for the development, expansion or support of health resources under the Public Health Services Act, the Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment and Rehabilitation Act, the Community Mental Health Centers Act, and other miscellaneous sources.

Two aspects of California's health planning program are out of compliance with federal health planning requirements: (1) the state administrative organization is incomplete (for example, the state has yet to create a State Health Coordinating Council), (2) the state certificate of need law is not strong enough (for example, California fails to require the federally mandated certificate of need for remodeling and replacement projects).

One of the primary reasons why the state has not enacted legislation needed to achieve compliance with federal requirements is the belief by many that such action would take away from the state control of state health planning. In 1977, the Secretary of the Health and Welfare Agency, with support from the chairpersons of the Assembly and Senate health policy committees, proposed that the Congress enact amendments to PL 93-641 that would allow the state to have a greater role in health planning while satisfying federal requirements. Efforts have continued to secure these amendments but have been unsuccessful to date. We believe that the Secretary of the Health and Welfare Agency should continue efforts to obtain necessary amendments to PL 93-641. If amendments are not obtained, the Legislature will have to decide whether to pass legislation placing California in compliance with existing federal law or to prepare for the fiscal and program consequences of an estimated 29 percent reduction in the office's budget on October 1, 1979 and possible reductions totaling $200 million in alcohol, drug, health and mental health programs in the subsequent year.

Health Professions Career Opportunities Program

We recommend that the seven positions requested for the Health Professions Career Opportunities program be deleted and that Item 248 be reduced by $267,368.

The office is requesting $267,368 from the General Fund for five limited term positions (three professional, two clerical), two temporary help positions and operating expenses, for the Health Professional Career Opportunities Program in the Division of Health Professions Development. The augmentation would be for one year.

The Health Professions Career Opportunities program (HPCOP) was established in the 1976–77 fiscal year with Title II funds from the Public Works Employment Act (PWEA) of 1976. Title II funds are continuing to support the program in the current year, but will not be available in the budget year. The office proposes that the General Fund support the program in 1979–80 to provide sufficient time for an evaluation of program efforts and an analysis of an appropriate staffing level. A request for support in fiscal year 1980–81 presumably would be based on the results of this evaluation.

Program Activities. The program consists of a variety of activities intended to increase the number of minority and disadvantaged students being trained to become health professionals, (primarily in medicine, dentistry and public health). The program's long-term goal is to increase the number of minority health professionals practicing primary care in the state's health manpower shortage areas. Some of the activities in which program staff are involved are: (1) publishing brochures and pamphlets which provide information on health professions, (2) publishing a regular newsletter, (3) holding conferences for school recruiters, and students intending to apply, or who have been accepted to professional schools, (4) counseling students rejected by professional schools, and students planning to apply, (5) attending meetings of minority/disadvantaged student health organizations, and (6) conducting research studies.

We have a number of concerns about the office's funding request for the program:

1. This is not the only program in California the purpose of which is to increase the number of minority/disadvantaged persons in health professions. The Office of Health Resources Opportunity (OHRO) in HEW has administered a grant program with similar goals since 1972. Presently, there are 17 grant recipients in California receiving funding of $1,527,000. The purpose of these grants varies by project but includes information, recruitment, manpower development, preparatory training, and retention programs.

2. We do not believe that the General Fund should be required to fund the evaluation of this project. We have criticized Title II projects in the past for failing to collect data necessary for project review. The office should be able to demonstrate both program need and program effectiveness before requesting General Fund support.

3. At the present time, the office has no data showing the program's effect on the number of minority health professionals or minority health students. Further, program staff indicate that they believe the program will be difficult to evaluate because (1) federal efforts will be affecting the same target population, and (2) many of the activities focus on undergraduate students whose career plans will not be known for a number of years. Finally, although evaluation of the program is supposed to occur in the budget year, we have received no information concerning the specifics of the evaluation. The office staff has informed us that the evaluation will be conducted by the program staff. We do not believe it would be

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

possible for the program staff to conduct an objective evaluation, particularly in the absence of any evaluation design.

Because of the concerns, we recommend deletion of the positions and funds requested for the HCPOP project.

Contracts and Equipment

We recommend that Item 248 be reduced by $16,481 to eliminate funds for unspecified equipment and needs.

In the preparation of its budget a department of state government may inadvertently overfund or underfund a particular budget category. In recognition of this, state agencies are authorized, under specified circumstances, to transfer funds between categories (for example, from printing to contracts). The office maintains that it needs even more flexibility than this and has included $6,481 for unspecified equipment needs and $10,000 in contracts for "potential committees" in its budget.

Under normal circumstances, we would be able to analyze the existing expenditure for operating expenses and equipment to determine whether transfers were occurring and to assess the reasonableness of the projected expenditure for the budget year. However, the office has no expenditure data for fiscal year 1978–79 on which we can base an assessment. Last year's reorganization of the Department of Health initially left the office with no accounting staff. While positions were subsequently allocated to it pursuant to Section 12.9 of the Budget Act of 1978, the positions remain unfilled and expenditure data are not being processed.

Because of the office's inability to support current year expenditures in these areas, it cannot justify an expenditure for unspecified equipment and contract needs.

Reimbursements of Local Agencies

We recommend that (1) the office waive fees to local agencies for compliance with Chapter 854, Statutes of 1976, and (2) the revenue the office receives from these fees be replaced with General Fund revenues. We therefore recommend deletion of Item 250 and transfer of the funds to Item 248.

Chapter 854, Statutes of 1976, (the state's Certificate of Need law), requires that local agencies be reimbursed for costs incurred pursuant to the legislation. These costs are generated from (1) fees paid for certificate of need applications, (2) appeals of certificate of need decisions and (3) special fees levied on licensed health facilities to support the state's cost in administering Chapter 854.

The system created to administer these provisions of Chapter 854 is complex. Local agencies pay fees to the office and then apply to the Controller for reimbursement. Originally, it was anticipated that federal funds would be used to cover part of the state's cost in reimbursing local agencies. However, no federal funds have been used to reimburse the General Fund for these expenditures during the three fiscal years in which fees have been collected. We believe the failure to use federal funds has resulted from confusion about which federal funds can be applied toward the reimbursement.

Chapter 854 appropriated money from the General Fund to reimburse local agencies for the costs of complying with the statutory requirements, but provided that "if federal funds are no longer available to offset all or part of such allocations and disbursements, such local agencies shall not be subject to the fees." Because federal funds have not been made available to reimburse the General Fund for these expenditures, we believe the more reasonable approach is simply to waive the fees for local agencies. Waiver of the fees will reduce revenues which the office uses to support the state's costs in administering the Certificate of Need program. The State Controller estimates that these revenues would be approximately $273,000 in the budget year. Because Chapter 854 provides that health facilities paying fees shall not subsidize those for whom fees are waived, the replacement of this revenue must come from federal or state funds. The office informs us that no federal funds are available to replace the revenue, and therefore, the appropriation must come from the General Fund. We recommend, therefore, that Item 250 be deleted and that the funds be transferred to Item 248.

Song-Brown Family Physician Training Program

We recommend that the Office of Statewide Health Planning and Development justify its failure to comply with supplemental language to the 1978 Budget Act which required submission of an evaluation design for the Song-Brown Family Physician Training Program to the Joint Legislative Budget Committee and fiscal subcommittees. We further recommend supplemental language to the 1979 Budget Act requiring reappropriation for the program to occur in the Governor's Budget for 1980–81, if, after the evaluation is completed, the office determines that continued funding is appropriate.

Chapter 1176, Statutes of 1973 established the Song-Brown Family Planning Physician Training Program to (1) increase the number of health professionals practicing the specialty of family practice and (2) maximize the delivery of primary care family practice service to priority areas of unmet needs. The legislation established the Health Manpower Policy Commission and authorized the commission to (1) determine areas of unmet need and (2) administer a medical contract program with schools and facilities that train family practice health professionals, including residents and physician's assistants. Chapter 1003, Statutes of 1975, expanded the contract program to cover nurse practitioners. Chapter 170, Statutes of 1977, and Chapter 1300, Statutes of 1978, further expanded the program to permit the commission to fund special projects which are primarily in undergraduate schools and programs that train primary health care teams.

In the past, the program has received its funding through appropriations contained in legislation other than the annual budget acts. The legislation authorizes the commission to expend the funds during a specified four year period. Table 1 displays the General Fund appropriations to date for the Song-Brown program.

Table 1
General Fund Allocations
Song-Brown Family Physician Training Program
1973–1978

Funding Source	*Residencies (Capitation Funds)*	*Assistant/ Nurse Clinician (Capitation Funds)*	*Team Training (Block Grants)*	*Special Projects (Block Grants)*	*Contract Total*	*Administration*	*Total Funding*	*Fiscal Years For Which Funds Authorized*
Chapter 1176, Statutes of 1973	$1,972,478	$744,375		$283,147	$3,000,000	$150,000	$3,150,000	1974–75 through 1976–77
Chapter 693, Statutes of 1976	1,383,250	268,125		23,625	1,675,000	100,000	1,775,000	1977–78 through 1980–81
Chapter 1162, Statutes of 1977	1,575,000	397,500		360,000	2,332,500	100,000	2,432,500	1978–79 through 1981–82
Chapter 1300, Statutes of 1978	1,575,000	427,500	$470,000	360,000	2,832,500	100,000	2,932,500	1979–80 through 1982–83
Total	$6,505,743	$1,837,500	$470,000	$1,026,772	$9,840,000	$450,000	$10,290,000	

The Health Manpower Policy Commission funds programs in two ways, through (a) block grants and (b) capitation funds. Block grants are awarded for special projects and programs which train primary care teams. The residency, physician assistant and nurse practitioner programs are funded on a capitation basis. Presently, the annual capitation grants for one residency slot are $15,000 per year, or $45,000 for three years and $8,750 for a physician assistant/nurse clinician slot. (Funds are appropriated for four-year periods to allow for lead time.) Although training institutions apply to the commission for a specified number of slots, there is no procedure for identifying individuals as the designated recipients of the funds. Instead, the entire training program must adhere to the standards established by the commission as a condition for receipt of funds.

One of the commission's standards requires that training programs develop strategies that encourage its students and residents to practice in areas of unmet need after completing the program. Methods that a program might use to accomplish this objective include training students in areas of need and selecting students predisposed to practice in an area of unmet need. Commission staff monitor the practice locations of graduates, and subsequent awards of funding are supposed to be based on the program's performance.

Evaluation of Program. This upcoming year will be the first in which this major focus of the program can be thoroughly evaluated. To evaluate the success of training programs in influencing graduates to practice in areas of unmet need, data must be gathered on students who were selected after the priority areas of need were established. Areas of need were first established by the commission in 1975.

While data on the practice locations of physician assistants and nurse clinicians are available, information on the residency program will not be available until after graduation of the 1979 class of family practice residents in June. We recommend that the office evaluate the program after data become available on the residents' practice locations, and determine whether program benefits outweigh the corresponding costs.

Supplemental language to the 1978 Budget Act required the Office of Statewide Health Planning and Development to submit a plan for the evaluation of the Song-Brown Family Physician Training Program to the Joint Legislative Budget Committee and fiscal subcommittees by January 1, 1979. The report had not been submitted as of late January. We believe that the office should justify its failure to comply with legislative intent during budget hearings.

Further, we believe that if the office's evaluation finds that the program accomplishes its goals in a cost efficient manner, funding for the program should be provided through the Budget Bill so as to permit review by the legislative fiscal committees as part of the overall review of health related programs. Therefore, we recommend that the following supplemental language be added to the 1979 Budget Act.

"It is the intent of the Legislature that the Governor's Budget for 1980–81 include a reappropriation for the Song-Brown Family Physician Training Program if the Office of Statewide Health Planning and Development determines that the program should receive continued funding."

Health and Welfare Agency
DEPARTMENT OF AGING

Item 251 from the General Fund — Budget p. 616

Requested 1979–80	$1,476,886
Estimated 1978–79	1,464,468
Actual 1977–78	1,118,573
Requested increase $12,418 (0.8 percent)	
Total recommended reduction	$13,000

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
251	Support, Department of Aging	General	$1,039,886
Chapter 1199, Statutes of 1977		General	437,000
		Senior Volunteer and Nutrition Model Project	
Total			$1,476,886

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Nutrition and Multipurpose Senior Center Programs.* Recommend statewide policy for site selection criteria for these program project sites. 582
2. *Reduction of Administrative Position.* Recommend deletion of one proposed position for a total savings of $29,679 in federal funds in Item 251 (a) and (d). 583
3. *Program Technical Support.* Recommend deletion of one proposed position for transportation studies, for a total savings of $29,611 in federal funds in Item 251 (a) and (d). 584
4. *Consultant and Professional Services. Reduce Item 251 by $13,000.* Recommend reduction of overbudgeted line item for contractual legal services. 586

GENERAL PROGRAM STATEMENT

The California Department of Aging is designated by state statute as the single state agency responsible for administering funds which are allocated to the state under the federal Older Americans 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 proposed budget identifies four programs administered by the department: Program Administration, (departmental) Administration, Grants, and the 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 in the state on behalf of older persons.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $1,476,886 from the General Fund for support of the Department of Aging in 1979–80. This is an increase of $12,418, or 0.8 percent, over estimated current year expenditures. Included within the amount is $437,000 previously appropriated for the Senior Volunteer and Nutrition Project by Chapter 1199, Statutes of 1977. Total expenditures, including those from federal funds, are estimated at $92,393,329, an increase of $13,182, 665, or 16.6 percent, over estimated expenditures in the current year. Approximately $3.4 million will be spent for the administration of the department and the commission, and $78,247,064 will be available in cash grants to the seventeen Area Agencies on Aging (AAAs) and Direct Service Areas (DSAs).

These grants are intended to provide for the development of comprehensive and coordinated service systems which include social and nutrition services components and multipurpose senior centers. In addition, $9.7 million will be expended by the department for a senior employment service, and $540,000 will be used to conduct training sessions for providers of programs for the elderly. Table 1 identifies the expenditure components of the program and the sources of funding.

Table 1

Total Proposed Expenditures for Department of Aging
Fiscal Year 1979–80

	General Fund	*State Transportation Fund*	*Federal Funds*	*Reimbursements*	*Total*
Program Administration	$679,512	—	$1,587,856	—	$2,267,368
Departmental Administration	274,308	—	643,774	—	918,082
Commission on Aging	60,816	—	146,249	$1,500	208,565
State Grants Model Projects	462,250	—	—	—	462,250
Program Grants to Area Agencies on Aging (AAA)					
Coordinated Senior Services—Title III	—	—	28,700,000	—	28,700,000
Congregate Nutrition—Title III	—	—	33,900,000	—	33,900,000
Home Delivered Meals—Title III	—	—	9,000,000	—	9,000,000
USDA Entitlement for Nutrition Programs	—	—	6,647,064	—	6,647,064
Training Grants—Title IV-A	—	—	540,000	—	540,000
Senior Community Employment Services—Title V	—	—	9,700,000	—	9,700,000
Other	—	$50,000	—	—	50,000
Total	$1,476,886	$50,000	$90,864,943	$1,500	$92,393,329

Older Americans Act (OAA) Reauthorization

The federal Older Americans Act establishes program objectives and authorizes funding for planning, administering and providing various health and social services to the elderly (60 years of age and older).

As amended, the Act has five key titles: (1) Title III, which consolidates and extends the provisions for social services, senior centers and nutrition services (formerly supported under the old Titles III, V, and VII); (2) Title

DEPARTMENT OF AGING—Continued

IV, which continues to provide for training project grants and also contains new provisions for evaluation, research and demonstration; (3) Title V, which provides for senior employment services previously contained in Title IX, and (4) Title VI, a new program, which provides for social and nutrition services for Indians. Table 2 shows the growth in state and federal funding for programs for the aging from fiscal years 1972–73 through 1979–80.

Table 2

Growth of Programs for Aging[a]

Fiscal Years 1972–73 Through 1979–80

	Federal Funds	*Percent Change*	*State Funding*	*Percent Change*
1972–73	$2,757,500	—	$98,500	—
1973–74	14,203,600	415.1%	783,600	695.7%
1974–75	18,080,100	27.2	1,218,400	55.4
1975–76	21,204,300	17.2	1,325,100	8.7
1976–77	28,055,600	32.3	1,288,700	−2.7
1977–78	46,655,100	66.3	1,580,500	22.6
1978–79	77,445,300	66.0	1,464,500	−7.3
1979–80	90,864,900	17.3	1,476,900	0.8

[a] Except for fiscal year 1979–80, all figures are based on midyear 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 program and the delayed expenditure patterns among the grantee agencies.

Table 2 indicates that:

1. The federal government provides 98 percent of the funding for the program.
2. The growth in federal funding was especially strong in 1977–78 and 1978–79, but the rate of increase will moderate in the budget year.
3. State funding in the budget year will grow by less than 1 percent, and will be but $100,000 less than the actual expenditure level in 1977–78.

Program Administration

This program is responsible for the administration and coordination of three major titles of the Older Americans Act: Titles III, IV, and V.

Title III funds are allocated to California for the purpose of establishing a network of coordinated services and resources for the elderly. Seventeen AAAs have been designated to carry out this activity in California. In addition, the department provides grants to 47 DSA projects located in areas of the state not covered by an AAA. These projects generally provide information and referral to elderly persons in need of services.

Each AAA must develop an area plan which identifies priority service needs based on demographic data relating to the area's elderly population, an inventory of available services, and a listing of service gaps. 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.

Program administration is also responsible for a broad range of planning, research and evaluation activities, public relations, legislative coordination activity, and a statewide library services effort. In addition it provides a broad range of technical assistance to public and private, nonprofit agencies in areas affecting senior citizens, such as housing, transportation, health, employment, and income maintenance.

In addition to broad technical assistance and support efforts, Program Administration is responsible for the multipurpose senior centers, which provide financial assistance to local agencies for acquiring, altering or renovating existing facilities to serve as multipurpose senior centers, and Title V (previously IX) which promotes part-time subsidized employment opportunities for senior citizens 55 years of age and older in a variety of community service activities.

Finally, Program Administration 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 submit to the Legislature and the Governor on or before July 1, 1980, an evaluation of each of the pilot projects. Chapter 1199 also appropriated $300,000 for fiscal year 1978–79 and $437,000 for fiscal year 1979–80 from the General Fund. In addition, $50,000 was appropriated for fiscal years 1978–79 and 1979–80 from the Transportation and Research Account.

Nutrition and Multipurpose Senior Center Programs

We recommend that the Department of Aging develop a statewide policy outlining site selection criteria for nutrition programs and multipurpose senior centers. Such criteria should include (1) the number of economically disadvantaged elderly, (2) the number of frail-elderly and (3) site availability.

The objective of the nutrition program (formerly Title VII) 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. Target groups include those 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 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.

Since the inception of this program, the department has concentrated its efforts on establishing additional nutrition sites and assuring that the minimum of 100 nutritionally balanced meals are served daily. In its efforts to set up these sites, the department has, to a large extent, neglected to

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assess the need for specific sites based on the needs of the elderly in the surrounding area. Instead, the selection is often based on the desires of local government.

The same is true of the approach taken to selection of multipurpose senior center sites. Need assessments which examine and compare the conditions of elderly persons in a given community, are often conducted without adequate demographic data.

We recommend that the department develop a statewide policy outlining site selection criteria for nutrition programs and multipurpose senior centers. Such criteria should include (1) the number of economically disadvantaged elderly, (2) the number of frail elderly and (3) site availability. The department should consult with (a) the Commission on Aging, (b) project directors of nutrition and senior center programs, (c) AAAs and (d) the regional office of the federal Administration on Aging in developing the criteria. This policy should be ready for implementation by September 1, 1979.

Replacement of Administrative Positions

We recommend the deletion of one new position in program administration for field operations, for a savings of $29,679 in federal funds.

We further recommend approval of seven new positions in program administration for field operations as requested.

The budget proposes eight new positions (federally funded) in program administration, based on increased workload resulting from the reauthorization of the Older Americans Act which requires increased monitoring of AAAs. Two positions will be engaged in program development and assessment, and in providing technical assistance regarding the food service operation of nutrition programs. Two Auditor II positions will make fiscal assessments of contractors, prepare audit closeouts, and provide fiscal technical assistance. One position will assist with the integation of area agencies' annual plans into the department's planning process.

Two positions (Consultants on Aging I) are proposed for completing project assessments as required by the federal government and providing technical assistance such as evaluations and followup.

We recommend approval of these seven positions based on the increased workload imposed by the federal government.

The remaining new position is a Consultant on Aging III which would have the same responsibilities as the two Consultants on Aging I positions. We believe that the proposed workload for completing project assessments can be handled adequately by the new Consultants on Aging I positions, because the number of project sites which require direct assessments by the department will be reduced in the current year as a result of federal legislation which transferred jurisdiction over these projects to AAAs. Therefore, we do not believe a third new position is necessary and recommend that it be denied for a savings of $29,679 in federal funds.

Program Technical Support

We recommend the deletion of one new proposed position for program technical support in the area of transportation, for a savings of $29,611 (federal funds).

We further recommend approval of one new proposed position for program technical support in the housing area.

The department is requesting two new positions for program technical support. One position will: (1) provide coordination whereby senior citizens in the states, 36 HUD Section 202/8 elderly housing facilities are afforded an opportunity to receive social services and (2) handle other housing issues relating to senior citizens. We recommend approval of this position.

The other position (Associate Governmental Program Analyst) is proposed to work with the Department of Transportation to expand elderly transportation availability and reduced-fare programs conducted by public transportation providers. We do not believe this new position is justified.

The department presently has one staff position which serves as liaison with the Departments of Housing and Community Development and Transportation. The position provides for follow-up on housing and transportation issues affecting the elderly. Furthermore, the Departments of Aging and Transportation already have an interagency agreement aimed at improving the availability of transportation for senior citizens.

In recent years, numerous federal and state laws and regulations designed to assist in the provision of transportation services to the elderly have been implemented. Specific federal and state laws require special provisions for transportation for the elderly as an integral part of the transportation planning process. In addition, federal law mandates that adequate provision for the needs of the elderly must be met before federal capital funds are provided to transit entities. In view of these facts and our recommendation that the proposed new position for an elderly housing specialist be approved, we believe that existing staff resources can be redirected to absorb the proposed workload. Therefore, we recommend that this proposed position be denied.

Title V—Senior Employment Services

Title V (formerly Title IX) of the Older Americans Act authorizes the U. S. Department of Labor (DOL) to provide grants to fund subsidized part-time community service employment and training for economically disadvantaged persons 55 years of age and older. The purpose of this program is to meet two urgent needs of older persons: the need for additional income and the need to become involved in mainstream activity.

Historically, all Title V funds have been awarded by DOL to five national organizations, known as National Contractors. The National Contractors are the National Council on the Aging (NCOA), National Council of Senior Citizens (NCSC), National Retired Teachers' Association/American Association of Retired Persons (NRTA/AARP), National Farms Union Green Thumb, and the U. S. Department of Agriculture Forest Service. These national contractors received an estimated total of $12

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million for program operations during fiscal 1978–79. These funds are not included in state budget totals.

The department has administered Title V in California since July 1, 1977, when it became the sixth contractor in the state. The department's primary objective is to coordinate all Title V activities and any other local manpower services impacting on the elderly. Currently, the department subcontracts program services to the AAAs and to two local nonprofit agencies in direct service areas which are not served by AAAs.

The department has received an estimated $2.8 million in Title V funds for fiscal year 1978–79 and estimates that it will receive $9.7 million for 1979–80. In allocating 1978–79 funds statewide, the department attempted to equalize the distribution of Title V funds in California (including those already administered by National Contractors). The department's allocation plan for Title V funds is therefore based on an estimated "fair share" of Title V funds to which each AAA in the state would be entitled if all available Title V funds were distributed on the basis of each service area's share of the state's minority and low-income populations over the age of sixty.

Participants in Title V are placed in a broad range of work environments such as senior citizen centers, nutrition programs, and schools.

In our discussions with the department and visits to various Title V project sites, we have identified the following problems regarding the program: (1) the department does not have a specific assessment procedure for reviewing the sites, (2) AAAs do not have a system for referring program participants for additional employment training services, (3) AAAs do not have a recruitment program for the economically disadvantaged elderly and (4) AAAs lack proper orientation to manpower programs. In addition, local offices of the Employment Development Department (EDD) have not provided the necessary coordination and integration of employment services to participants in this program.

The reauthorization of the Older Americans Act is emphasizing the improvement of coordination between state agencies and national contractors. The state units on aging are to review and comment on all employment projects 30 days before their commencement. Furthermore, under the new amendments, the participants are to be provided assistance in making the transition to private employment. With the projected federal outlays for this program in fiscal year 1979–80, the department could establish a statewide employment service program which would operate in conjunction with local EDD offices. This would be a viable option when examining ways of improving coordination between state agencies and national contractors.

Thus far, however, the department has not addressed the problems associated with this program and has not developed any contingency program plans.

Grants Development and Assessment Units

The Grants Development Unit is responsible for processing new and continuation grant applications under Titles III and V, and for providing necessary guidance to projects to insure project compliance and program success. The Assessments Unit is responsible for improving program quality through identification of project weaknesses, making recommendations for improvement and verification of compliance with prevailing program standards and guidelines.

In our discussions with AAA staff and department representatives, we have found various problems in the operation of these two units. Specifically, we found that:

1. There is no formalized assessment instrument for the multi-purpose senior center and senior employment service programs.
2. There is no clear delineation of duties and responsibilities between these two units.
3. Monitoring activity is very general and examines primarily budget revisions and proposal development.

Departmental 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.

Consultant and Professional Services

We recommend that the General Fund appropriation (Item 251) be reduced by $13,000 to correct overbudgeting for consultant and professional services.

The budget proposes a total of $46,875 for consultant and professional services for 1979–80, a decrease of $186,167 from the current year level. This decrease is largely due to the termination of Public Works Employment Act funding.

Within consultant and professional services, the department has received $23,000 for legal services from the Department of Justice (DOJ) during the current year and is requesting the same amount in the proposed budget. In the current year, DOJ has allocated 170 hours, at a rate of $40.60 per hour, for legal services and the department has reported 85.3 hours utilized through December 31, 1978. Both departments indicate that the 170 hours appear to be more than adequate for the department's needs. Consequently, at the present expenditure rate, the department would utilize a total of $6,902 in the current year.

The DOJ has projected for fiscal year 1979–80 the same hourly allocation at the same hourly rate for a total estimated expenditure of about $7,000. Based on the proposed $23,000 budget for legal services this would constitute an overbudgeting of about $16,000.

This budgeted amount could be reduced from $23,000 to $10,000 and still leave a contingency allowance of $3,000 above the current year expenditure level.

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Special Planning Unit

In our Analysis of the 1978 Budget Bill, we discussed the findings of various legislative committees that there was not a planned, coordinated and integrated system of services to the elderly in California. Furthermore, in testimony before the fiscal committees it was indicated that letters of understanding entered into by various state agencies providing services to the elderly did not have a significant impact on improving the integration of services. Existing agencies have a variety of mandates to fulfill and it appears that effective coordination can only take place where policies are clearly enumerated in law and where lines of authority and responsibility are clearly designated.

In an attempt to resolve this lack of coordination, the Legislature provided funds in the 1978 Budget Act to establish a planning group (three technical and four clerical) within the Department of Aging. This group's assignment was to make legislative and administrative recommendations which would result in an integrated system of health and social services for the elderly. These seven positions were funded from the Public Works Employment Act and were to work with five positions from other agencies: (1) two from the Department of Health Services, (2) two from the Department of Social Services and (3) one from the Office of Statewide Health Planning.

The planning unit has focused its examination on the following social service and health-related programs:

Social Services	*Health*
1. In-home supportive services	1. Home health
2. Adult protective services	2. Preventive health care services
3. Information and referral	3. Adult day care
4. Health-related social services	4. Mental health
5. Out-of-home care	5. Ombudsman
6. Home-delivered meals	
7. Older Americans Act	

The report is supposed to identify gaps, duplications, and overlaps in the provision of these services to the elderly, and to propose corrective solutions. Unfortunately, this effort is not proceeding as planned for the following reasons:

First, although the representatives from departments other than the Department of Aging were supposed to report to the planning director for the duration of the effort, this is not happening. In our discussions with the department, we found that the Departments of Health, Social Services and the Office of Health Planning designated staff representatives for liaison purposes only, thus limiting their role and responsibility.

Second, while there was some cooperation between the different departments the integration of staff and resources in the planning effort has not taken place. Consequently, the special planning unit's research and analysis responsibilities, which were to have been undertaken jointly by the departments, instead were assigned to the three staff positions in the

Department of Aging. Thus, the desired interagency effort is not occurring.

The report is overdue. The original date for submission to the Legislature was December 1, 1978, but we understand the report will not be submitted until March 1, 1979.

The seven positions comprising the unit will be terminated in the current year.

Title IV-A Training

Title IV-A of the Older Americans Act provides funding for the recruitment, training, and improvement of personnel involved in service programs for the elderly. Specifically, the improvement of trained personnel should be manifested by "(1) developing information on the actual needs for personnel to work in the field of aging, both present and long range; (2) providing a broad range of quality training and retraining opportunities, responsive to changing needs of programs in the field of aging; (3) attracting a greater number of qualified persons into the field of aging; and (4) helping to make personnel training programs more responsive to the need for trained personnel in the field of aging."

Prior to the current year, the department automatically allocated funds to AAAs for training based on the elderly population. However, in preparing its training plan for fiscal year 1978–79, the department altered its allocation process and decided to have AAAs compete for approximately $570,000 in training funds. The department was concerned with the quality of prior training program development and courses. It had found that (1) limited assessments of training needs were being conducted by AAAs, (2) training objectives were lacking in specificity, measurability and relevancy, and (3) there was a prevalent misunderstanding of the intent of Title IV-A (thus, the elderly participants in programs were being trained as opposed to service providers). In addition, the department felt that too much emphasis was placed on conference attendance and travel costs, and not enough on performance.

For the current fiscal year, the department implemented a procedure which evaluated AAA proposals on a competitive basis. An eight-member proposal review committee ranked and recommended these proposals according to:

1. Evaluation criteria;
2. Accessibility of training to potential participants;
3. Appropriateness of each proposal as a response to the RFP;
4. Budgetary constraints;
5. Performance of previously funded applicants;
6. Extent of support of state plan objectives.

The committee recommended six AAAs for funding to administer their own training program, while the department provided training in eight other locations across the state. Training classes were to be given in two day sessions. Courses to be provided to aging personnel range from grant management and nutrition project effectiveness, to program control and evaluation.

We would encourage the department to permanently establish a Title

DEPARTMENT OF AGING—Continued

IV-A program which reflects the planning and structure of the current year program.

Commission on Aging

The budget proposes $208,565 for support of the Commission on Aging in 1979–80. This is an increase of $3,562, or 1 percent, over the estimated current year expenditure. The commission staff consists of two professional and three clerical positions. Nineteen of the 25 commission members are appointed by the Governor, three are appointed by the Speaker of the Assembly and three are appointed by the Senate Rules Committee. We recommend approval.

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG ABUSE

Items 252–255 from the General Fund — Budget p. 623

Requested 1979–80	$60,099,228
Estimated 1978–79	58,753,771
Actual 1977–78	50,606,331 [a]
Requested increase $951,892 (1.6 percent)	
Total recommended reduction	$4,819,746

[a] Funding estimated for drug programs in the Department of Health.

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
252	State Operations	General	$5,060,441
—	Budget Act of 1976, Item 280(g), Research Centers	General	393,565
253	Local Assistance for Alcoholism Programs	General	30,861,618
254	Local Assistance for Drug Abuse Programs	General	23,428,604
255	PCP Program	General	355,000
	Total Available		$60,099,228

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *Indirect Costs. Reduce Item 252 by $213,593.* Recommend reduction in amount budgeted for indirect costs. 592
2. *Consultant Services. Reduce Item 252 by $111,335.* Recommend reduction in amount budgeted for unspecified consultant services. 592
3. Allocation Methods. Recommend supplemental language requiring department to establish equitable and efficient allocation methods for local assistance funding. 592
4. Special Population Commissions. Withhold recommen- 595

dation on $240,000 budgeted for support of special population commissions pending results of study to be submitted March 1, 1979.

5. *Special Projects. Reduce Item 252 by $114,389.* Recommend reduction in funds budgeted for unspecified special projects. 596
6. *Drinking Driver Program. Reduce Item 252 by $112,545.* Recommend reduction in amounts budgeted for program approval activities and evaluation. Further recommend that department justify continued operation of program. 596
7. *Alcoholism Research Center. Reduce Item 252 by $80,000.* Recommend supplemental language requiring the department to establish priorities for research needs and submit evaluation design proposals and budgets for research projects to the Joint Legislative Budget Committee and fiscal subcommittees. Further recommend reduction in funds budgeted for new research project. 598
8. *PCP Contract. Reduce Item 255 by $45,000.* Recommend reduction in amounts budgeted for evaluation and unspecified purposes. 602
9. Special Needs Funding. Recommend Budget Act language permitting the department to allocate special drug abuse funding to areas of high priority county need. 602
10. *Residential Facilities. Reduce Item 254 by $1,060,000.* Recommend reduction in amount budgeted for reimbursement to drug abuse residential facilities for costs incurred in meeting licensing standards. 603
11. *Cost of Living. Reduce Item 253 by $1,746,884 and Item 254 by $1,336,000.* Recommend reduction in amounts budgeted to provide cost-of-living increase. 605

GENERAL PROGRAM STATEMENT

The Department of Alcohol and Drug Abuse is responsible for directing and coordinating the state's efforts to prevent or minimize the effects of alcohol misuse, narcotic addiction and drug abuse in the state. The department was established by Chapter 1252, Statutes of 1977 (SB 363), effective July 1, 1978. The statute combined the functions of the Substance Abuse Division in the Department of Health and the Office of Alcoholism in the Health and Welfare Agency. The department includes the Divisions of Administration, Alcoholism and Drug Abuse.

ANALYSIS AND RECOMMENDATIONS

The budget proposes General Fund expenditures of $60,099,228 for fiscal year 1979–80, an increase of $951,892 (1.6 percent) above the estimated current year level. Included in total General Fund expenditures are $5,-060,441 in Item 252 for state operations (including special drug and alcohol projects), $30,861,618 in Item 253 for local assistance to alcoholism programs, $23,428,604 in Item 254 for local assistance to drug abuse programs and $355,000 in Item 255 for continued funding of a phencyclidine (PCP)

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

training program. The total state and federal support for the program for the prior, current and budget years is shown in Table 1.

Table 1
Alcohol and Drug Programs
State and Federal Expenditures

	Actual 1977–78	*Estimated 1978–79*	*Proposed 1979–80*	*Change 1979–80 over 1978–79 Amount*	*Percent*
State Operations[a]					
(Alcohol and Drug Programs)					
General Fund (Item 252 + carry over)	—[b]	$5,134,837	$5,454,006	$319,169	6.2%
Federal funds	—[b]	2,759,470	2,403,465	−356,005	−12.9
Total	$5,978,941[c]	7,894,407	7,857,471	−36,836	−0.5
Local Assistance[d]					
Alcoholism					
General Fund (Item 253)	$30,659,576	$31,171,330	$30,861,618	−309,712	−1.0
Federal funds	4,530,819	5,175,557	4,958,096	−217,461	−4.2
Total	35,190,395	36,346,887	35,819,714	−527,173	−1.5
Drug Abuse					
General Fund (Items 254 + 255)	15,212,842	22,447,604	23,783,604	1,336,000	+6.0
Federal funds	15,807,912	14,882,156	16,319,326	1,437,170	+9.7
Total	31,020,754	37,329,760	40,102,930	2,773,170	+7.4
State and Local Expenditures					
Alcoholism and Drug Programs					
General Fund (Items 252–255)	—[b]	$58,753,771	60,099,228	1,345,457	+2.3
Federal funds	—[b]	22,817,183	23,680,887	863,704	+3.8
Total	$72,190,090	81,570,954	83,780,115	2,209,161	+2.7

[a] State operations include Departmental Administration and Statewide Drug and Alcohol Projects.
[b] Funding detail for state operations—drug abuse programs unavailable.
[c] Based on estimate for drug abuse programs in the Department of Health.
[d] Does not include funds provided by counties to match state funds.

I. DEPARTMENTAL ADMINISTRATION

The purpose of the administration program is to provide executive leadership, policy direction and administrative services necessary to accomplish program goals and objectives. The program includes activities conducted by the Divisions of Administration, Alcoholism and Drug Abuse. Among other responsibilities, staff in the two program divisions assists local program administrators in planning, developing, implementing, coordinating and funding local programs. Table 2 details the costs of this program.

Table 2
Departmental Administration (All Funds)

	1977–78	*1978–79*	*1979–80*	*Change 1979–80 over 1978–79 Amount*	*Percent*
State Operations					
Funding	—[a]	$6,376,788	$6,333,776	$−43,012	−0.7%
Personnel-Years	—[a]	191	186	−5	−2.6

[a] Data unavailable—Alcohol and drug programs separate.

Sections 27.1 and 27.2: Funds budgeted for operating expenses and equipment were reduced by $100,000 in both the current and budget years per Section 27.1 of the Budget Act of 1978. Personal services were reduced by 8.9 positions and $200,000 in both years per Section 27.2. Because the department has not identified the positions proposed for elimination, we cannot validate the appropriateness of this reduction.

The department further proposes to reduce personal services by five positions and $89,692 in the budget year to improve efficiency. The following positions would be deleted: 2 Research Analyst II's, 2 Staff Services Analysts and 1 Office Assistant II. We do not believe the department's operations will be adversely affected by the reduction.

Indirect Costs

We recommend that the funds budgeted for indirect costs be deleted for a savings of $213,593 in Item 252.

The department has budgeted $213,593 to cover indirect costs. Staff have been unable to explain what these costs are, although staff suspects that they are either pro rata charges or indirect costs incurred in the administration of federal grants.

Indirect costs should not be budgeted as expenditures. These costs are reimbursed by the federal government and therefore should be budgeted as an offset to General Fund expenditures. Pro rata charges should only be budgeted as expenditures by departments funded with special funds. Consequently, there appears to be no basis for the proposed indirect cost funds, and we recommend that they be deleted.

Consultant Services

We recommend that funds budgeted for unspecified consultant services be deleted for a savings of $111,335 in Item 252.

The department has budgeted $111,335 to purchase consultant services in the budget year. Departmental staff report that consultants are necessary for a variety of reasons including technical assistance to county programs and individuals, review and selection of contracts, and participation on boards.

The department was unable to detail funds budgeted for each of the above functions and failed to provide any information on the use of similar consultant services in the current year. Because adequate justification has not been provided to justify the need for these funds or the appropriate level of such funds if a need exists, we recommend deletion of the funds.

Local Assistance Allocation Methods

We recommend that supplemental report language be adopted requiring the department to establish an allocation method for local assistance funds which is equitable and efficient, and that the department report on this method to the Joint Legislative Budget Committee and fiscal committees by December 1, 1979.

The criteria that the department is required to consider in allocating drug and alcohol local assistance funds are specified in different statutes. Section 19964 of the Health and Safety (H&S) Code requires that alcohol-

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

ism funds be allocated taking into account ". . . such factors as the relative population of the county, its financial need, its need for more effective alcohol prevention, treatment and rehabilitation programs, the relative ethnic minority population of the county, the number of arrests for public intoxication and driving while intoxicated, and the number of off-sale licensed outlets that sell alcoholic beverages within the county." Criteria for drug abuse allocation is found in Section 5661 of the Welfare and Institutions (W&I) Code which mandates criteria for all programs funded through the Short-Doyle Act. This section states that "evaluation studies assessing the cost effectiveness of program and services shall be used" as guidelines for the allocation of funds for programs as presented in county Short-Doyle plans. Standards should be developed to assure maximum cost effectiveness of all programs based on the evaluation studies.

As these code sections indicate, different sets of criteria are used to allocate drug and alcohol funds. The significance of this, however, is lessened by the fact that in neither program does the department allocate funds based on the mandated criteria. Allocations are generally made on a historical basis. In a few instances, need factors have been considered in allocating funds. In the great majority of cases, however, the funding level a county has had in past years is the single greatest predictor of its future funding level. Further, the budgeting process for local assistance funds exacerbates the allocation problem. County budgets are developed after counties are notified of initial allocations and most budgets are then developed not on the basis of county needs but to spend up to the allocation level.

Allocation of Alcoholism Funds. In a January 1977 report on the Office of Alcoholism, we recommended that the allocation process include consideration of population and need for service. A January 1979 Department of Finance report on the alcoholism program also recommended that allocations be based on need for service.

The Finance study noted the fiscal consequences of the department's allocation methodology. The department found that during fiscal year 1977–78, (1) 60 percent of the counties were allocated more funds than they had actually budgeted (total overfunding amounted to $306,988) and (2) 17 of the 24 counties that "budgeted" for their full allocation underspent by a total of $3,254,452. The report concluded that "the (above) practice results in a failure of OA (Office of Alcoholism, now the Department of Alcohol & Drug Abuse) to effectively utilize the funds made available to them and can result in depriving a county and/or persons with alcohol problems from funds to meet their needs."

Alcoholism Allocation Study. In response to this office's criticism of its allocation methodology, the department began reviewing the alcoholism methodology in April 1977. In November 1978 it published its findings. Evaluators reported that while data on county population, financial need and need for services were all necessary for a model allocation formula, only county population data could presently be used to allocate funds to alcohol programs. Financial need was considered inappropriate because (1) assessing financial need accurately seemed complex and (2) applying the criteria would be a disincentive to counties to obtain funds from other sources. The report found that there is no present method to assess need for service, but noted that the department had contracted with UCLA to develop such a method.

In the absence of a need-for-service component, the report recommended use of a per capita formula for allocation purposes. This method was only to be used, however, (1) after small counties received a minimum allocation of $25,000 and (2) for funds in excess of the base 1978–79 level of local assistance funding (excluding cost-of-living).

We have a number of concerns with the department's recommended method for allocating alcoholism funds. First, the recommendation clearly violates the provision of Section 11834 of the Health and Welfare Code which requires the department to consider such factors as county financial need, need for more effective services, ethnic population etc., in allocating alcoholism funds. We are unaware of any department proposals to amend this section. Second, assigning a minimum allocation to counties which do not request it is not a sound fiscal practice. The January 1979, Department of Finance study reported that of the 13 counties which received the minimum allocation in fiscal year 1977–78, only five budgeted for the full amount. Third, any allocation methodology developed should apply to the base expenditures as well as new funds. This is particularly true when the base has been established irrespective of need for service or any other criteria.

We believe the department should reassess the results of its allocation study.

Allocation of Drug Abuse Funds. No extensive review of the drug abuse allocation process has been undertaken. However, we believe the problems with the drug abuse allocation process correspond to those related to the alcoholism method. The department has initiated a drug abuse program evaluation effort which may provide information necessary for revision of the process and compliance with Section 5661 of the W&I Code, but no final reports have been issued and we are unaware of any plans to use evaluation results to revise the process. (The status of the evaluation effort is discussed later in this analysis.) In any event, we believe the department should conduct a formal review of the allocation process and propose amendments to existing law if the review concludes that the method should be changed.

Revised Methodology Necessary. In conclusion, we believe that the allocation methods presently used by the department prevent alcohol and drug funds from being used in an equitable and efficient manner. We suggest that the process be revised in the following areas: (1) counties should submit budgets prior to receiving allocations, (2) minimum allocations should be eliminated, (3) allocations should be based on needs-based criteria other than historical funding levels, (4) allocation formulas should apply to base allocations as well as new funds and (5) existing law should be amended to reflect the revised allocation criteria to be used by the department.

Consequently, we recommend that supplemental report language be adopted requiring the department to develop a method for allocating

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

funds in an equitable and efficient manner, and that the department report to the Joint Legislative Budget Committee and the fiscal committees by December 1, 1979.

Special Population Commissions

We withhold recommendation on the $240,000 budgeted in Item 242 for contracts with four special population commissions.

The department has been contracting with four special population commissions (Native American, Black, Spanish Speaking, and Women) since 1974–75 to provide technical assistance to the department, county alcoholism coordinators, and other individuals. The proposed budget includes contract funds for $240,000 for the four commissions. Language in the supplemental report accompanying the 1978 Budget Act requires this office to report to the Legislature by March 1, 1979 on (1) the costs and benefits resulting from the commission support and (2) the amount of support the commissions should receive in fiscal year 1979–80. We withhold recommendation on the allocation of the $240,000 until we have completed our analysis of these matters.

II. STATE ADMINISTERED DRUG AND ALCOHOL PROJECTS

The department administers a number of special alcohol and drug projects. Some of the projects are undertaken by department staff, but many are carried out through contracts. Projects budgeted for 1979–80 include the Drinking Driver program, Labor Based Occupational program, the Alcoholism Research Center, and Methadone Supervision. Funds for these projects are shown in Table 3.

Table 3

				Change 1979–80 over 1978–79	
Program	*1977–78*	*1978–79*	*1979–80*	*Amount*	*Percent*
Drug and Alcohol Projects....	—[a]	$1,854,249	$1,546,240	−308,009	−16.6%

[a] Data not available—Drug abuse and alcohol programs were separate.

The reduction in funds for this program is caused by a transfer of federal funds to drug abuse local assistance.

Drug Abuse Evaluation Efforts

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." In response to this mandate, the Department of Health initiated a Drug Abuse Program Evaluation project. The Department of Alcohol and Drug Abuse now has the responsibility for the project.

In our Analysis of the 1978 Budget Bill, we recommended that the department submit a time schedule for completion of the project to the Legislature. In response, the department stated (on April 21, 1978) that the following reports would be available by May 1, 1978: a preliminary evaluation report on 113 programs; a report on effectiveness of short-term evaluation procedures in a 20 program pilot; a report on long term follow-up study of clients in 113 programs. The reports are still not available nine months after the target date. Department staff indicate that the reports will be available in the near future. The reports should be submitted to the Legislature prior to this year's budget hearings.

Special Projects

We recommend a reduction in funds budgeted for unspecified special projects, for a savings of $114,389 in Item 252.

The department has included funds in its proposed budget for unspecified special studies and projects. Staff indicate that the department is presently reviewing priorities, and the proposed funds would be used for projects subsequently determined to be of high priority.

We believe that funds should not be budgeted unless (1) a need for the funds can be demonstrated and (2) a plan for expenditure of the funds is available. Because neither condition has been met, we recommend deletion of the $114,389 set aside for special projects.

Drinking Driver Program

We recommend that the department justify the continued operation of the Drinking Driver program. We further recommend that the $40,545 budgeted for program approval activities and the $72,000 budgeted for further evaluation be deleted for a savings of $112,545 in Item 252.

Chapter 1133, Statutes of 1975, established a pilot project which revised state policy toward the treatment of multiple offenders of the driving-under-the-influence laws. The legislation permitted courts in a four county test area to stay the mandatory driver's license suspension of a person convicted of driving under the influence of alcohol if the person successfully completed a treatment program approved by the department.

The demonstration program was conducted from January 1, 1976 through December 31, 1977. Four comparison counties were selected to provide control information on the project. In these counties, judges continued to revoke or suspend the licenses of drivers convicted of multiple driving-under-the-influence offenses. In the demonstration counties, judges could refer drivers to a 12-month treatment program.

The Department of Motor Vehicles (DMV) and the former Office of Alcoholism collected data during the demonstration period to assess (1) the effectiveness of the treatment strategy as a traffic safety alternative and (2) the impact on a participant's lifestyle.

Before the evaluation could be completed, Chapter 890, Statutes of 1977, expanded the program. The legislation authorized all counties to establish treatment programs if the programs were approved by the department. To date, programs have been approved in 33 counties. Approximately 750–1,000 drivers enter the programs each month.

Evaluation Results. Chapter 890 also required the Department of Alcohol and Drug Abuse and the Department of Motor Vehicles to submit a report on the original demonstration project to the Legislature by December 1, 1978.

The results contained in the report raise serious questions about the drinking driver program.

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

DMV's analysis of traffic safety indicators found that experimental county drivers were more likely to be involved in subsequent driving-under-the-influence convictions and accidents than drivers in the control group. In general, the accident and conviction records of the experimental group were 30 percent worse than those of the control group.

In assessing lifestyle changes the Department of Alcohol & Drug Abuse's evaluators found that both the control and treatment groups had experienced lifestyle improvements at the time of the eight month follow-up interviews. The groups were significantly different on only one factor (emotional control) with the experimental group declining and the comparison group improving.

The department evidently intends to suggest revisions to the present programs, but has not developed any proposals for modification at this time. In light of the evaluation results, we believe there is no justification for expanding this program. The department should, therefore, cease approving new programs. We also believe that the departments should justify continued operation of the program. Consequently, we recommend that (1) the $40,545 budgeted for the statewide approval program be deleted from Item 252, and (2) the department be prepared to justify the program during budget hearings.

Further Evaluation Unnecessary. The department is requesting $72,000 to perform a follow-up study on the recent evaluation. The results for the completed evaluation were obtained eight months after the treatment program began. The follow-up study would evaluate lifestyle changes after the participants have completed 12 months of treatment.

It is unlikely that statistically significant results would be obtained by a subsequent evaluation. Between the commencement of the program and the eighth-month interviews, 38 percent of the experimental group and 75 percent of the control group participating in the lifestyle evaluation element could not be located. Thus, data on lifestyle changes were gathered from only 188 of the 303 persons initially in the experimental group and 58 of the 232 persons initially in the control group. An even larger attrition rate could be expected in a followup evaluation, particularly because the subjects have been out of treatment groups for over a year. Therefore, the data collected for the follow-up study would not be significant in a statistical sense, and thus could not support conclusions about the program. In any event, it seems unlikely that an additional four months of treatment would cause enough difference in lifestyle changes to justify a program which statistically reflects increased traffic accidents and convictions. Consequently, we recommend deletion of the funds budgeted for the follow-up study.

Alcoholism Research Center

We recommend that supplemental report language be adopted requiring the department to submit the following information to the Joint Legislative Budget Committee and fiscal committees before requesting further funding for the Alcoholism Research Center: (1) a priority listing of state *research needs, (2) an evaluation design, and (3) proposals and budgets for future research projects.*

We further recommend that funds budgeted for the women and alcoholism research project be deleted, for a savings of $80,000 in Item 252.

Chapter 925, Statutes of 1975, authorized the former Office of Alcoholism to establish an Alcohol Research Center at a California university. The purpose of the legislation was to provide for coordinated studies of alcoholism issues by establishing a permanent center staffed with interdisciplinary researchers. The statute contained an appropriation of $1,000,000 from the General Fund without regard to fiscal year for support of the center. The department intended to fund the center for five years and then conduct a full evaluation of the costs and benefits of continued funding. Each year's funding, however, was to be subject to budget review and approval. The budget proposes $473,565 for support of the center in 1979–80 which is the same as the estimated expenditure in the current year. All of the current year funds are from the appropriation provided by Chapter 925 and all but $80,000 of the proposed 1979–80 funds are from the Chapter 925 appropriation. The $80,000 is included in Item 252.

In September 1977 the University of California at Los Angeles (UCLA) was awarded the contract to establish the center following a competitive bid process. The initial contract required UCLA to conduct six research projects, four of which were proposed by the department and two of which were proposed by UCLA and reviewed by the department. These projects are:

1. A study to determine if alcohol is the most significant factor in the drinking driver problem.
2. Development of a formula to estimate the number of alcoholics and alcohol abusers in California in need of service.
3. A study of alcohol marketing/advertising strategies and impact.
4. Social and family components of the combined use of alcohol and other drugs in a youthful population.
5. A study of the causal relationship between alcohol consumption and the availability of alcoholic beverages.
6. A review of urban American Indian drinking practices in California.

As these projects are completed, UCLA will propose new projects. The proposals will be reviewed by the department to determine whether the topics are consistent with legislative mandates and the State Alcoholism Plan.

Program Concerns. We have a number of concerns about the Research Center concept.

1. Funding a research center, as opposed to individual research efforts, eliminates the need to justify funding for specific research projects.
2. Future projects may not be in the areas most critical to state research needs. The department has not assessed or established priorities for the state's research needs. New projects should only be funded after these needs have been established.
3. No plans have been made for the evaluation of the center after five years of operation. Unless an evaluation design is established at the beginning of a project, it will be difficult to accurately assess the project's value.

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

4. There may be no need to continue funding of a research center. When the UCLA Center was established it was the only center in California, and one of only seven or eight in the country. Subsequently, the federal government established nine centers, four of which are in California. While each of these has a specific research focus, none of which overlap UCLA's, there may no longer be a need for a state funded research center.

Because of these concerns, we believe that continued funding of the center's projects should occur only after the state's research needs have been established, an evaluation design has been developed and individual projects are justified to the Legislature. Therefore, we recommend that supplemental report language be adopted requiring the department to submit the following information to the Joint Legislative Budget Committee and the fiscal subcommittees before requesting further funding for the Research Center: (1) state research priorities, (2) an evaluation design and (3) proposals and budgets for new research projects.

Budget Year Request. One of the six research projects underway at the Research Center will be completed during the current year. In order to replace the completed project, the department is requesting $80,000 in General Fund support to initiate a new project in the area of women and alcoholism. A specific research topic has not yet been established. We cannot validate the appropriateness of this expenditure without further information on the project. For this reason, and for the reasons expressed above, we recommend deletion of the requested funds.

III. LOCAL ASSISTANCE

A. Alcoholism Programs

Alcoholism services are administered and managed by counties which are responsible to the state for effective program implementation. Counties establish program priorities in a program budget based on state standards and regulations and submit them to the department for approval. Each county receives an allocation from the General Fund as well as federal alcoholism funds. County programs are required to provide the following services: (a) prevention, (b) information and referral, (c) early diagnosis and detection, (d) detoxification treatment and (e) vocational

Table 4
Alcoholism Programs [a] (Local Assistance)
State and Federal Funds

				Change 1979–80 over 1978–79	
Program Elements	*1977–78*	*1978–79*	*1979–80*	*Amount*	*Percent*
County Administration	$4,539,647	$4,252,229	$4,088,741	$163,488	3.8%
Prevention	2,089,824	2,362,349	2,044,370	−317,979	−13.5
Identification	3,831,343	4,070,510	3,748,010	−322,500	−7.9
Treatment and Rehabilitation	25,729,581	25,661,799	25,938,593	276,794	1.1
Total	$35,190,395	$36,346,887	$35,819,714	−$527,173	−1.5%
Federal Funds	4,530,819	5,175,557	4,958,096	−217,461	−4.2
State Funds	30,659,576	31,171,330	30,861,618	−309,712	−1.0

[a] Does not include county match funds.

rehabilitation. Program costs by objective are summarized in Table 4.

The proposed reduction from the current year results from (1) termination of two special projects (Public Inebriate and Alcohol Prevention) which have been funded within this program in the amount of $2,056,596 and (2) a decrease in federal funds of $217,461. The addition of $1,746,884 is included to provide a cost-of-living increase to local alcohol programs.

B. Drug Programs

Drug abuse services are also administered and managed at the county level. As with the alcoholism program, counties establish program priorities based on state standards and regulations, and present them in a program budget which must be approved by the department. The department allocates state funds to the programs through the Short-Doyle system and federal funds through contracts with counties or program providers. Table 5 details drug abuse program costs by objective.

Table 5
Drug Abuse Programs [a]
(Local Assistance)
State and Federal Funds

Program Elements	*1977–78*	*1978–79*	*1979–80*	*Change 1979–80 over 1978–79 Amount*	*Percent*
County Administration	— [b]	$4,479,571	$4,812,351	$332,780	7.4%
Prevention	— [b]	3,732,976	4,010,293	277,317	7.4
Treatment and Rehabilitation	— [b]	29,117,213	31,280,286	2,163,073	7.4
Total	$31,020,754	$37,329,760	$40,102,930	$2,733,170	7.4%
Federal Funds	15,807,912	14,882,156	16,319,326	1,437,170	9.7
State Funds	15,212,842	22,447,604	23,783,604	1,336,000	6.0

[a] Does not include county matching funds.
[b] Data unavailable—program in Department of Health in FY 77–78.

The $2,773,170 increase in the budget year is the result of (1) $1,336,000 from the General Fund to provide a 6 percent cost-of-living increase and (2) a $1,437,170 (9.7%) increase in federal funds.

County Match Requirement

Existing law requires that counties provide a minimum of 10 percent in local matching funds to obtain state funds for drug and alcohol programs. During the current year, SB 154 permitted counties to obtain state funds without providing any matching funds. The Department of Finance indicates that counties will again be required to provide matching funds in the budget year.

Need for County Match Requirement. Both drug and alcohol programs are administered and managed at the county level. They are not "state" programs in the sense that program decisions are made at the state level and counties merely perform administrative tasks. The 10 percent matching requirement provides the only fiscal incentive for county boards of supervisors to assure that programs are administered effectively in order to control programs costs. Consequently, we believe that maintain-

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

ing this incentive is essential for proper fiscal management of the system. While it is true that continuation of the requirement may cause some counties to reduce or eliminate their drug and alcohol programs, this prospect does not justify elimination of any county financial participation in these programs. Moreover, counties are in a good position to determine the relative priority these programs have in meeting the needs of their citizens.

Budget Document Incomplete. The Governor's Budget fails to include data on county funds in expenditure estimates for local alcohol and drug programs in the budget year. Therefore, the total expenditure for the programs is understated by a minimum of $5,689,100 which consists of $3,100,200 for alcohol and $2,588,900 for drugs.

Effect of the Waiver on County Contributions. The department estimates that although counties were not required to provide the 10 percent match in 1978–79, there was only a 34 percent decrease for local support on alcohol programs and a 26 percent decrease in local support on drug abuse programs. The department states the county information is still preliminary.

Tables 6 and 7 detail findings from this preliminary assessment.

Table 6
County Matching Funds

	10 Percent Match	*Overmatch*[a]	*Total*
Alcohol Program			
1977–78	$3,079,895	$7,057,949	$10,137,844
1978–79	2,426,030	4,295,331	6,721,361
Reduction	$−653,865	$−2,762,618	$−3,416,483
	(−21.2%)	(−39.1%)	(−33.7%)
Drug Program[b]			
1977–78	$1,655,977	$8,213,187	$9,869,164
1978–79	914,714	6,362,881	7,277,605
Reduction	$−741,253	$−1,850,306	$−2,591,559
	(−44.8%)	(−22.5%)	(−26.3%)

[a] Represents additional aggregate funds contributed by counties which exceed their normal 10 percent matching requirement.

[b] For comparison purposes, this excludes the $4.5 million augmentation. Considering the total allocation including the $4.5 million augmentation, a required 10 percent match would equal $2,156,032. Counties are actually contributing $996,550 or 4.6 percent. There is a reduction of program in the amount $1,159,482 due to the waiver of the county 10 percent match requirement.

The department indicates that more accurate data will be available by March 1979.

Table 7
Number of Counties Providing Matching Funds

	Alcohol	*Drugs*
Counties budgeting no matching funds	20	38
Counties budgeting part of the matching funds	9	15
Counties budgeting a 10 percent match	22	5
Counties budgeting in excess of 10 percent match	14	No Data

PCP Contract

We recommend deletion of the $35,000 budgeted to evaluate the PCP training program and the $10,000 budgeted for unspecified purposes, for a total savings of $45,000 in Item 255.

The department has proposed continued funding from drug abuse local assistance funds of a multidisciplinary training effort aimed at the phencyclidine hydrochloride (PCP) problem in the budget year. The budget includes $355,000 for the training effort which consists of (1) $310,000 for a contract with UCLA to develop a training curriculum and conduct 30 training workshops, (2) $35,000 for a contract to evaluate the effectiveness of the training program, and (3) $10,000 for unspecified purposes.

When funds were requested for the training program in the current year, the department stated that the evaluation would be performed by department personnel using existing resources. The department informed the Legislature in April 1978 that "The department intends to evaluate both the effectiveness of the training curriculum as well as the degree to which the above stated objective (reduction of the adverse effects of PCP intoxication on individuals) has been addressed. These evaluative studies will be conducted using existing department personnel." We believe that the department should make good on its promise to evaluate the program using existing resources. We therefore recommend deletion of the $35,000 which is proposed for the evaluation.

The department was unable to verify how the additional $10,000 budgeted for the project would be expended. We believe that funds should not be requested unless there is a specific need and plan for expenditure. Consequently, we also recommend deletion of $10,000 budgeted for an unspecified purpose.

Special Needs Funding for Drug Programs

We recommend that Budget Act language be included in Item 254 to permit the department to allocate special needs drug abuse funding to areas of high priority county need.

The budget for the current year contains $4.5 million which the Legislature provided to increase funding for five special need areas in the drug abuse program. During budget hearings on the 1978–79 budget the department identified critical needs in the following areas: adolescent treatment, poly-drug treatment, parenting treatment, treatment for drug dependent women, and reimbursement to residential facilities for the costs of meeting licensing standards. The Legislature appropriated funding for these purposes. Because concern was expressed that the department would expend the appropriation in areas other than those of special need, the Legislature included Budget Act language specifying and appropriating funds to each need area. The specific amounts for each area were established on the basis of the department's estimates of counties' needs.

The distribution of funds established by the Budget Act language for the current year is as follows: $1,531,965—adolescent treatment; $788,910—poly-drug treatment; $670,275—drug dependent women; $568,850—parenting treatment and $1,000,000 for licensing.

The distribution established in the 1978 Budget Act does not appear to

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

meet the counties' need for service within these special need areas. Table 8 shows that great discrepancies exist between the funding counties requested by need area and their final allocation.

Table 8
Augmentation Funds
Fiscal Year 1978–79

	Funds Requested	*Funds Allocated*	*Funds Unallocated*	*Funds Appropriated*	*Difference Between Request and Appropriation*	
					Dollars	*Percent*
Adolescent	$2,420,060	$1,531,965	—	$1,531,965	$-888,095	-58%
Poly Drug	574,986	786,204	$2,706	788,910	+213,924	+27
Parenting	520,226	568,850	—	568,850	+48,624	+9
Women	171,713	610,275	—	610,275	+438,562	+72
Licensing	479,672	742,744	257,256	1,000,000	+520,128	+52
TOTAL	$4,166,657	$4,240,038	$259,962	$4,500,000	$333,343	8%

In the budget year, the department is requesting $4,770,001 for the same special needs areas. Budget Bill language is again included to control expenditure by need area. The funding specified in the language maintains the same distribution as the current year. Specifically, the funds would be distributed as follows: $1,623,883—adolescent treatment; $646,-892—drug dependent women, $602,981—parenting treatment, $836,245—poly-drug, $1,060,000—licensing of residential facilities.

We believe the present distribution results in inefficient use of funds. Funds are not being allocated to counties in the areas they have identified as their highest need. For example, counties received only 58 percent of the amounts requested for adolescent treatment. While we believe that budget language should require the department to spend this appropriation in the special need areas, we believe the department should have the flexibility to allocate the funds to those areas in which counties identify need. We expect the department to maintain separate accounts on these funds and to justify distribution decisions.

Drug Abuse Residential Care Facilities

We recommend that the funds budgeted to reimburse drug abuse residential facilities for costs incurred in meeting licensing standards be eliminated, for a savings of $1,060,000 in Item 254.

As previously noted, the department's budget includes $1,060,000 to reimburse residential facilities (drug abuse only), many of them privately owned, for costs incurred to meet licensing standards. These costs would be incurred through expenditures for the repair and remodeling of facilities and by upgrading staffing.

The Department of Social Services is responsible for the licensing of community care facilities. The regulations used by the department in licensing these facilities were developed in 1976 when alcohol and drug programs were essentially part of the mental health system. Accordingly, they are aimed at protecting clients in community mental health and mental retardation programs as well as drug abuse and alcohol programs.

After the regulations were adopted, concern developed that the standards required for the mentally ill and retarded were too stringent for alcohol and drug facilities. Accordingly, in early 1977 the Department of Health convened a licensing task force to draft a set of regulations appropriate for drug and alcohol programs. Draft regulations were developed, but were never promulgated. The Department of Alcohol and Drug Abuse is now developing a new draft and will work with the Department of Social Services to complete the regulations. Department staff indicate that the target date for final adoption of the regulations is December 1979.

The funds requested in the budget are to be expended by residential care facilities to comply with the department's proposed regulations, after these regulations are promulgated.

Program Concerns. We have several concerns with the request:

1. Awarding funds to privately-owned facilities for remodeling and repair may be a "gift of public funds" and therefore an illegal expenditure under Section 6, Article XIV of the California Constitution. The department believes that the expenditure would not be a gift of public funds but has requested the Attorney General's opinion. We have requested the opinion of the Legislative Counsel on the issue.

2. The department cannot demonstrate a need for the funds. As noted above, department staff report that their target date for adoption of the new regulation is December 1979. After regulations are adopted, counties would have to survey the facilities, determine which facilities did not meet licensing requirements and establish a plan for compliance in order to demonstrate a need for the funds.

3. Counties do not report great need for the funds. Of the $1 million appropriated during the current year, the department allocated $740,000, but only $481,025 was actually requested by the counties. Of the 21 counties allocated funds, only nine have submitted plans for expenditures. While the department was unable to formally project what percentage of funds would be spent during the year prior to the completion of their analysis, staff estimated that only 30 percent would be spent. The staff report that the low expenditure is caused by late startup.

4. The department requested the funds for licensing in the current year based on the premise that they would be used to help facilities comply with the requirements of the new regulations. Given the fact that the department's new regulations have not been adopted, we cannot understand why any funds have been allocated at all.

5. Provision of these funds solely for drug abuse facilities is inequitable. There are least 42,000 licensed community care facilities in California, and drug abuse facilities constitute a negligible percentage of the total. The Department of Social Services is unable to provide data on drug facilities alone, but alcohol and drug facilities comprise 0.5 percent of total facilities licensed. If this support is to be provided to community care facilities, it should be provided to those most in need of the funds, rather than to those in a certain program category. Should the Legislature wish to continue this type of support, we believe the funds should be available to all facilities and that the allocation of funds should be administered by the Department of Social Services.

DEPARTMENT OF ALCOHOL AND DRUG ABUSE—Continued

6. Providing funds to all community care facilities (rather than just drug abuse facilities) could be extremely expensive. If the allocations to drug abuse facilities proposed by the department are indicative of the other facilities' needs, the cost could be as high as $42 million.

We therefore, recommend that the proposed $1,060,000 be deleted.

Cost of Living

We recommend that the funds budgeted to provide a cost of living increase for alcohol and drug programs be deleted for a savings of $1,746,-884 in Item 253 (local assistance—alcoholism) and $1,336,000 in Item 254 (local assistance—drug programs).

Funds are included in the proposed budget to provide a cost of living increase for alcohol and drug programs. We believe that a cost of living increase is not warranted.

We noted earlier in the analysis that funds are allocated to counties without regard to need for service, population and financial need. We observed that as a consequence of this allocation process, funds are being ineffectively used in that services are not being received by those most in need of them.

Further, basic information necessary for an evaluation of the effectiveness of drug and alcohol programs is unavailable.

Alcoholism Program. Presently, there is inadequate data to (a) determine the effectiveness of specific treatment methods, (b) estimate the number of alcoholics in need of service, and (c) assess cost per case.

Drug Abuse. As noted previously, evaluation of programs has been required since 1974, but no evaluation reports have yet been issued.

Given these circumstances, we cannot support a cost of living increase for the programs, particularly when the department has stated that cost of living increases will be distributed using the existing budget base.

We are not recommending that employees of alcohol and drug programs not receive a cost-of-living salary increase. We are, however, recommending that no increased funds be provided for alcohol and drug programs until the effectiveness of these programs can be documented and the funds are allocated equitably and efficiently.

Health and Welfare Agency

GOVERNOR'S ADVISORY COMMITTEE ON CHILD CARE

Item 256 from the General Fund — Budget p. 625

Requested 1979–80	$77,444
Estimated 1978–79	75,005
Actual 1977–78	69,063
Requested increase $2,439 (3.3 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes a General Fund appropriation of $77,444 for the Governor's Advisory Committee on Child Care. The committee is authorized by Section 8254 of the Education Code to advise the Governor and the Superintendent of Public Instruction on issues relating to child care and child development.

In the past, the committee has issued a number of reports on child care concerning alternative programs, licensing and regulations, voucher payments, special education, and reimbursements. During the past year the committee has also made recommendations in the areas of (a) worker credentialing, qualifications, training, and wages and benefits, (b) state administration of child development programs, and (c) interagency and interdepartmental coordination of children's programs.

The appropriation of $77,444 is an increase of $2,439 or 3.3 percent over estimated expenditures for the current year. This reflects a minor increase for general expenses and travel. These funds are used to support one executive secretary and one clerical position as well as travel and operating expenses of committee members.

Health and Welfare Agency

DEPARTMENT OF HEALTH SERVICES

Items 257, 258, and 261–265 from the General Fund — Budget p. 642

Requested 1979–80	$1,846,553,793
Estimated 1978–79	1,667,095,196
Actual 1977–78	N/A
Requested increase $179,458,597 (10.8 percent)	
Total recommended reduction	$3,355,967

DEPARTMENT OF HEALTH SERVICES—Continued

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	1978–79 Estimated	1979–80 Proposed	Percent Change
257	Departmental Support	General	$50,313,477	$56,623,519	12.5%
258	Departmental Support	General	4,935,085	5,154,516	4.4
261	Medi-Cal-Health Care Benefits	General	1,473,499,600	1,586,885,300	7.7
262	Medi-Cal-Fiscal Intermediary Contracts	General	21,411,900	25,036,400	16.9
263	Medi-Cal County Eligibility Determinations	General	93,539,100	104,085,500	11.3
264	Child Health Disability Prevention Program	General	6,696,034	6,888,918	2.9
265	Provider Rate Increases	General	16,700,000	61,879,640	270.5
	Total		$1,667,095,196	$1,846,553,793	10.8%

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *Chronic Disease Control Section. Reduce Item 257 by $135,148 (General Fund).* Recommend deleting two positions for older adult public health services. 614
2. Medi-Cal Funding. Recommend the Legislature provisionally approve $1,584,428,633 in Item 261 for medical care and services provided by the Medi-Cal program. Updated Medi-Cal estimates will be presented in May 1979. 623
3. *State Hospital Population. Reduce Item 261 by $1,000,000 (General Fund).* Recommend reduction in reimbursement to state hospitals due to overstated patient loads. 624
4. *Medical Assistance Units. Reduce Item 261 by $1,456,651 (General Fund).* Recommend the separate medical assistance units in state hospitals be eliminated. 624
5. County Hospitalization Patterns. Recommend the department review the medical necessity of the average length of stay in county hospitals. 625
6. Hospital Contracts with Physicians. Recommend the department's Audit Section undertake a comprehensive review of hospital contracts with physicians. 628
7. Model Field Office. Recommend the department institute a pilot project to improve its system of reviewing and approving purchase of certain medical services. 629
8. Professional Standards Review Organizations (PSROs). Recommend that the department complete a detailed report on PSROs with an updated funding request by April 15, 1979. 631
9. Hospital Data Analysis. Recommend department contract with California Health Facilities Commission for processing of hospital and nursing home data. 632
10. Funds for Fiscal Intermediary Contracts. Recommend provisional approval of $25,036,400 for fiscal intermediaries. 633

11. New Fiscal Intermediary. Recommend the department prepare a status report by March 15, 1979, on transition to new fiscal intermediary. 634
12. Need for Budget Support Materials. Recommend the department submit assumptions underlying fiscal intermediary contract costs. 634
13. *Recovery of Funds from Insurance Companies.* Reduce Item 257 by $532,593 (General Fund). Recommend that 35 positions and related funds for third-party liability collection activities be eliminated. 635
14. *Surveillance and Utilization Control Activities (SUR). Reduce Item 257 by $236,576 (General Fund).* Recommend deletion of 17 of 33 positions requested for the SUR section and approval of the remaining positions on a limited term one-year basis. 635
15. Tightening Funding for County Eligibility Determinations. Withhold recommendation on appropriation for Item 263. Recommend the county administrative cost control plan be revised to include more stringent productivity expectations. 638
16. Provider Rate increases (Item 265). Withhold recommendation on Item 265 ($61,879,640) pending submittal of a detailed Medi-Cal provider rate increase proposal to the Legislature by April 1, 1979. 642
17. Obstetrical Rate Increases. Recommend the department proceed to implement an obstetric fee increase to be funded by an abortion fee decrease. 644
18. Nursing Home Rate Increases. Recommend the department submit a report to the Legislature by March 1, 1979 on the state plan for nursing home rate increases. 644
19. Need for a Medi-Cal Data Management System. Recommend the department contract with outside consultant to expedite the development of a data retrieval and data management system for the Medi-Cal program. 650

GENERAL PROGRAM STATEMENT

The Department of Health Services' major responsibility is providing access to health care for California's welfare, medically needy and medically indigent populations through the Medi-Cal program. The department also exercises licensing responsibilities for 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.

DEPARTMENT OF HEALTH SERVICES—Continued

ANALYSIS AND RECOMMENDATIONS

The budget for the Department of Health Services provides for expenditures from all sources of $4,079,941,410 in 1979–80. This is an increase of $481,239,273, or 13.4 percent, over total expenditures estimated for 1978–79. General Fund expenditures in the budget year are proposed to be $1,846,553,793, an increase of $179,458,597 or 10.8 percent above current year expenditures.

I. DEPARTMENT SUPPORT

The budget proposes $118,973,259 (all funding sources) for support of the Department of Health Services in 1979–80. This is an increase of $7,948,062, or 7.1 percent, over the estimated expenditures in the current year. For departmental operations the Governor's Budget proposes a General Fund appropriation of $62,086,500 from Items 257 and 258. This is an increase of $6,529,473, or 11.8 percent, over estimated current year expenditures. Table 1 shows the sources of operating funds for the department.

Table 1
Source of Funds
Department of Health Services Operating Budget

A.	General Fund	
	Item 257—Basic Operations	$56,623,519
	Item 258—Licensing and Certification	5,154,516
	Previous Legislation and Prior Year Balances	1,301,936
	General Fund Subtotal	$63,079,971
B.	Reimbursements from Other Departments	11,141,456
C.	Federal Funds	43,426,468
D.	Hazardous Waste Control Account	1,013,819
E.	State Transportation Fund—Item 259	311,545
	Total	$118,973,259

POSITION CHANGES—1979–80 BUDGET

The budget proposes that the department operate with 117.4 more positions in 1979–80 than in the current year. This is a 3.6 percent increase in the number of positions approved for the department in 1978–79. Factors accounting for changes in the number of departmental positions are discussed below.

Control Sections 27.1 and 27.2, Budget Act of 1978

Control Sections 27.1 and 27.2 of the Budget Act of 1978 require that the Department of Finance restrict expenditures for personnel services and operating expenses in order to achieve a specified funding reduction in the current year. The budget for the department shows reductions of $1,470,256 for Section 27.1 (operating expenses) and $3,443,223 for Section 27.2 (personnel services) in the current year. These reductions are to be continued as permanent reductions in the budget year. The budget indicates that 165 positions will be removed from the 1979–80 position roster and indicates that the positions will be identified during budget hearings.

Salary Savings Requirements

In addition to the reductions of 165 positions, position reductions are imposed by normal salary savings requirements. In the current year, salary savings requirements total $4,299,616, excluding Section 27.2 reductions. With the Section 27.2 reductions, reductions in personnel services total $7,742,839.

The budget indicates that in the current year, the department will operate with 402 vacancies, approximately 11.0 percent of its authorized 1978–79 positions, in order to meet its salary savings requirements and achieve the savings required by Section 27.2 reductions. In practice, the department will have to maintain more vacancies (approximately 490) if it is to realize the $7,742,839 savings in personnel services which are shown in the budget. This is because a high percentage of the vacancies occur in clerical classifications which do not produce large per capita savings.

For fiscal year 1979–80, the budget shows a reduction of 281 positions, for a savings of $5,506,656. This is comparable to the 402 positions in the current year discussed above. The 281 positions are the equivalent of 7.8 percent of authorized positions for 1979–80. The reduction of 281 positions consists of the 165 positions deleted in the budget year pursuant to Section 27.2, and 116 unspecified positions which the Department of Finance assumes will be vacant due to normal staff turnover.

Workload and Administrative Adjustments and New Positions

The budget also shows the deletion of 214.6 positions ($3,960,580 total funds) for workload and administrative adjustments in 1979–80. Of these positions, 43 are being eliminated as a result of a Governor's directive that the department make an additional reduction in its base operations. The 43 positions include eight from Emergency Medical Services, nine related to Medi-Cal fraud investigations, four licensing survey positions and 22 contract county positions.

The balance of the 214.6 position (171.6 positions) consists of federally funded Title II positions or limited-term positions scheduled to expire during the period covered by this budget. Most of these positions are again being requested as new positions.

The budget also requests 293.3 new positions ($4,074,271 total funds). Table 2 summarizes the position changes, both additions and reductions, proposed in the Governor's Budget.

Table 2
Current and Proposed Positions
Department of Health Services
Fiscal Years 1978–79 and 1979–80

	Positions	
	1978–79	*1979–80*
Authorized Positions	3,644.6	3,602.4
Workload Administrative Adjustment	38.8	−214.6
Position Vacancies (Salary Savings)	−237.0	−116.0
Section 27.2 Reductions	−165.0	−165.0
Base Positions and Salaries	3,281.4	3,106.8
Proposed New Positions and Salaries	1.3	293.3
Totals	3,282.7	3,400.1

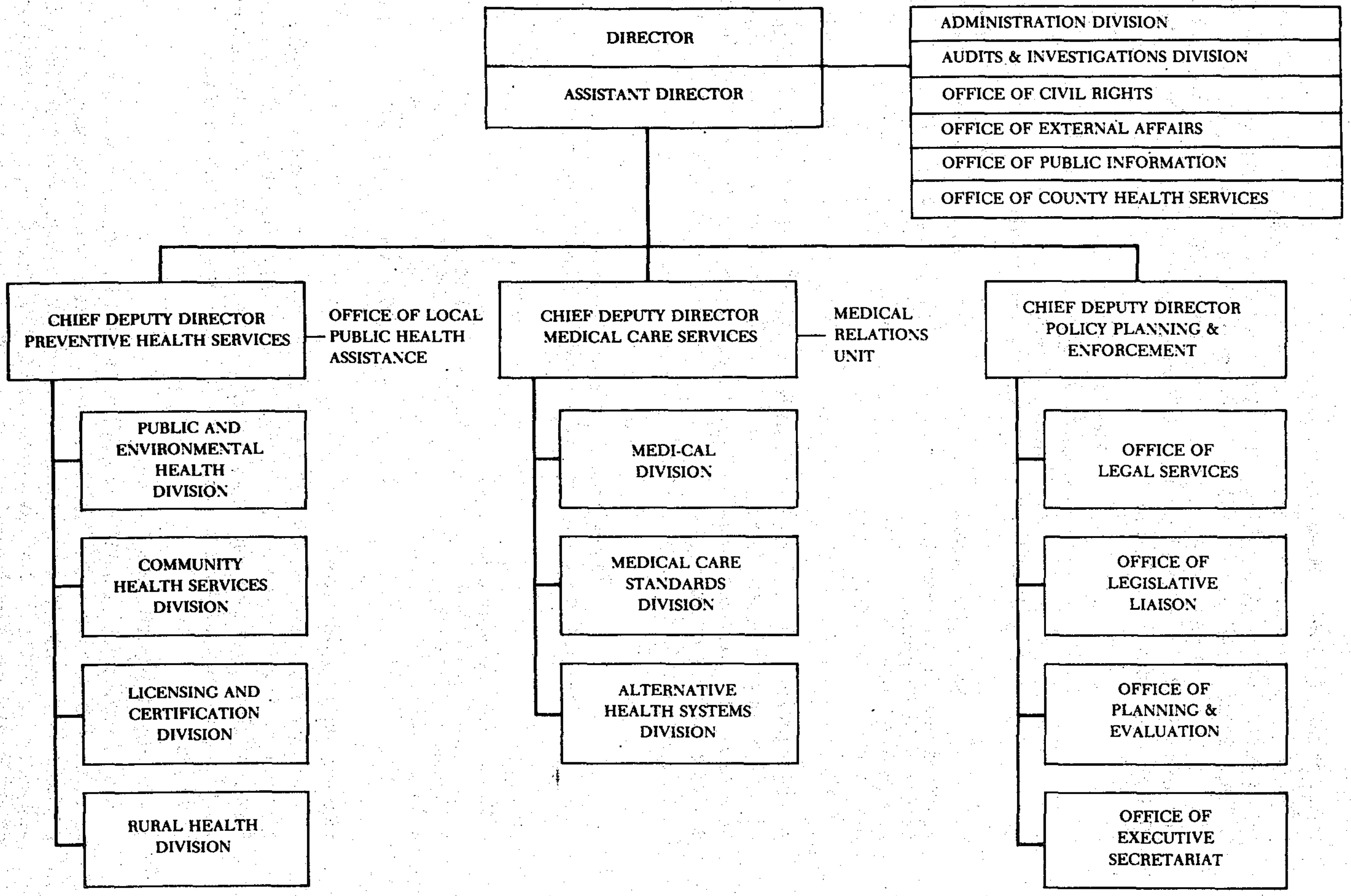
DEPARTMENT OF HEALTH SERVICES—Continued

Departmental Reorganization

Chapter 1252, Statutes of 1977 (SB 363), created the Department of Health Services from elements of the former Departments of Health and Benefit Payments effective July 1, 1978. Although the 1978–79 budget described some of the organizational changes which would affect the department, these changes were tentative because the new director of the department had not had the opportunity to review its organizational structure and make changes. To afford her this opportunity, the Legislature added language to the 1978 Budget Act allowing additional organization changes to be made, provided they were reported to the Legislature.

The department has undergone continued reorganization during the first six months of its operation. These changes have been reported to the Legislature as required. Currently it is organized into nine divisions and eight offices. Chart 1 shows the current departmental organization.

Chart 1
CALIFORNIA DEPARTMENT OF HEALTH SERVICES



DEPARTMENT OF HEALTH SERVICES—Continued

Public Health Programs—General Summary

During the current year the department has reorganized the administrative structure of the public health programs. The organization consists of four divisions: Rural Health, Licensing and Certification, Community Health Services and Public and Environmental Health. The number of currently authorized and proposed 1979–80 positions for each of these divisions are shown in Table 3.

Table 3
Public Health Programs
Positions by Division
(Excluding Administrative Overhead)

Public Health Divisions	*1978–79*	*1979–80*	*Position Change*	*Percent Change*
Public and Environmental Health	892.4	936.5	44.1	4.9%
Community Health Services	154.7	160.3	5.6	3.6
Licensing and Certification	237.5	231.7	−5.8	−2.4
Rural Health	114.2	96.4	−17.8	−15.6
Total	1,398.8	1,424.9	26.1	1.9

The budget proposes $101,163,718 from the General Fund for support of various public health programs in 1979–80. This is an increase of $1,012,863, or 1 percent, over estimated expenditures in the current year. Table 4 shows estimated expenditures and percentage increases for the public health programs, by departmental division.

Table 4
Department of Health Services
1979–80 General Fund Request for Public Health Programs

Division	*1978–79*	*1979–80*	*Percentage Change*
1. Public and Environmental Health	$28,823,860	$31,586,266	9.6%
2. Community Health Services	57,996,193	55,508,211	−4.3
3. Licensing and Certification	4,960,615	5,342,494	7.7
4. Rural Health	8,370,216	8,726,747	4.3
Total	$100,150,884	$101,163,718	1.0%

Licensing and Certification Division

The Licensing and Certification Division is responsible for monitoring the quality of service provided by health facilities in the state. The division has placed its primary emphasis during recent years on the enforcement of rules and regulations relating to skilled nursing and intermediate care facilities.

Community Health Services Division

The Community Health Services Division is the smaller of the two new divisions formed from the Public Health Division. It has approximately 160 positions. Its programs are Family Planning, California Children's Services (Crippled Children), and Maternal and Child Health. A fourth program, Child Health and Disability Prevention, which could have been placed in the division, was instead put in the new Medical Care Standards Division.

The Community Health Services Division provides personal health services. The program is budgeted to provide approximately $70 million in local assistance funds for this purpose.

Public and Environmental Health Division

The Public and Environmental Health Division, with over 900 positions, will be the largest division in the department. This division contains the Environmental Health Services, Preventive Medical Services, Laboratory Services, and Vital Statistics elements. Vital Statistics was transferred to the division from the Administrative Division.

The Public and Environmental Health Division is predominantly oriented toward minimizing the impact of hazardous environmental and adverse societal conditions on individuals. Program activities include food and drug inspections, drinking water programs and infectious disease control. The laboratory functions include support of a variety of state operations, and provide expert backup to local public health programs.

Rural Health Division

The Rural Health Division is the smallest division in the department. It has three major components. The *Contract County* program is responsible for providing public health services in 16 rural counties. The remaining two components, the *Rural* and *Indian Health* programs, augment existing primary health services for populations with higher than average need. The division integrated administration of the three component programs this year to provide more efficient field supervision and program coordination.

Chronic Disease Control Section

We recommend the deletion of two positions and $135,145 from Item 257 requested for the Chronic Disease Control Section.

Chapter 1389, Statutes of 1978, required the department to provide certain services for older adults. The services include planning, evaluation, education, and preventive health services. When this legislation was being considered by the fiscal committee, the department stated that it could absorb the additional workload and expense incurred, and that the bill would have no fiscal impact on the department. The department is now requesting two new positions, a Medical Officer III and a Health Education Consultant II to administer the program. We have received no information to indicate that the department cannot absorb the additional workload imposed by Chapter 1389, as it originally assured the Legislature it could.

II. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)

A. General Summary

The department requests funds for the Medi-Cal program through five items in the Budget Bill. Item 261 proposes $1,586,885,300 for the purchase of health care services for Medi-Cal recipients. Item 262 proposes $25,036,400 for the operation of the fiscal intermediary which processes claims submitted by health care providers. Item 263 proposes $104,085,500 to

DEPARTMENT OF HEALTH SERVICES—Continued

reimburse county welfare departments for their Medi-Cal eligibility determination activities. Item 265 proposes $61,879,640 to provide cost-of-living increases for health care providers, of which $59,186,400 is for Medi-Cal program provider rate increases. Finally, $26,891,672 of the amount proposed in Item 257, departmental support, is for departmental activities related to the Medi-Cal program.

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 in order to participate in the program.

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 5. These amounts were maintained at their 1977–78 levels following passage of Proposition 13. Normally they would have been increased to reflect the rising cost of living.

Table 5

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 and outpatient 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 nursing homes and hospitals require prior state authorization.

Table 6 shows the approximate number and percentage of recipients who use the Medi-Cal program to pay for services. Because AFDC recipients are generally younger and healthier than recipients in other categories, as a group they require medical services less frequently.

Table 6
Medi-Cal Program: Utilization Patterns by Aid Category 1978–79 Estimates

Category of Recipient	*Monthly Av. Number of Medi-Cal Eligibles*	*Monthly Av. Number of Users*	*Percentage who use the program monthly*
A. SSI/SSP Recipients:			
Aged	318,300	217,320	68%
Blind	12,600	8,310	66
Disabled	371,100	257,890	69
B. AFDC Recipients	1,443,200	580,860	40
C. Medically Needy	360,400	218,130	60
D. Medically Indigent	425,600	238,610	56
Categories	2,931,200	1,521,120	52%

Categories of Medi-Cal Expenditures

There are two major categories of Medi-Cal expenditures: health care services expenditures and expenditures for administration of the program. There are three general types of administrative expenditures:

a. Expenditures incurred by county welfare departments in determining an applicant's eligibility for Medi-Cal assistance.

b. Expenditures incurred by the fiscal intermediary related to the processing of billings submitted by health care providers.

c. Expenditures incurred by the state in regulating and operating various aspects of the program.

Table 7

Expenditure and Revenue Trends in the Medi-Cal Program, 1974–75 to 1979–80

Medi-Cal Expenditures (Federal, State and Local Funds)

	1974–75	*1975–76*	*1976–77*	*1977–78*	*Estimated 1978–79*	*Proposed 1979–80*
A. Health Benefits						
Professional services	$363,039,885	$485,475,828	$603,002,241	$707,765,435	$870,730,400	$1,006,295,500
Prescription drugs	86,535,940	129,349,989	143,638,666	157,228,048	176,427,400	182,186,500
Hospital Inpatient	582,249,945	677,570,885	837,692,283	1,008,483,042	1,140,998,500	1,285,790,000
Nursing homes and intermediate care	330,110,665	369,712,756	426,450,768	511,203,626	627,056,500	693,622,600
State hospitals	70,833,438	100,065,048	90,981,007	77,415,468	120,794,500	141,364,000
Other services	63,332,686	26,143,473	31,692,071	39,997,928	51,856,300	61,472,100
Prepaid health plans	93,354,296	90,570,816	70,217,585	60,856,478	61,632,900	73,214,900
Pilot Projects	33,745,139	69,000	—	—	112,800	947,300
Adult Day Health Care	—	—	356,386	678,982	—	—
Redwood Health Foundation	13,808,353	18,291,391	21,354,938	28,078,425	29,852,700	32,224,200
California Dental Service	65,252,594	78,127,086	99,470,519	121,275,185	125,100,200	130,038,500
Short-Doyle	85,177,226	35,059,924	83,157,754	91,613,705	92,266,000	98,368,400
Title XVIII B Buy-In	36,377,038	44,384,709	47,263,959	52,968,098	53,163,200	55,224,400
Child Health Disability Prevention	—	—	4,165,211	6,143,509	11,907,500	17,997,600
Adjustments	21,964,876	3,482,133	2,087,447	4,198,795	7,763,300	943,700
Subtotal, Health Benefits	$1,845,782,076	$2,058,302,988	$2,461,530,835	$2,867,906,724	$3,369,707,200	$3,779,689,700
B. Administration						
1. State Support:	30,465,601	33,233,120	45,199,573	47,889,524	59,594,324	67,105,771
2. Fiscal Intermediary:						
A) Medi-Cal Intermediary Operations	33,791,665	36,143,831	38,279,035	40,503,750	52,215,500	42,404,000
B) Computer Sciences Corporation					10,316,700	25,097,400
C) Dental Fiscal Intermediary						2,972,600
3. County Administration:						
Medi-Cal County Elig. Determinations	85,467,868	102,082,463	107,978,619	123,570,247	136,028,771	150,217,300
Child Health Disability Prevention				7,981,406	6,962,222	9,685,094
4. Court Ordered Expenditures				35,775	128,200	—
Medi-Cal Program Grand Total	$1,995,507,028	$2,229,762,404	$2,652,988,062	$3,087,878,426	$3,635,952,917	$4,077,171,865

MEDI-CAL REVENUE SOURCES

	1974–75	*1975–76*	*1976–77*	*1977–78*	*Estimated 1978–79*	*Proposed 1979–80*
State	847,184,751	935,722,459	1,153,998,477	1,406,556,069	2,105,347,650 [a]	1,868,303,884
County	296,826,395	328,490,632	362,900,280	410,435,375	—	484,000,400 [b]
Federal	851,495,882	965,549,313	1,136,089,305	1,270,886,982	1,530,605,267	1,724,867,581
Total	$1,995,507,028	$2,229,762,404	$2,652,988,062	$3,087,878,462	$3,635,952,917	$4,077,171,865

[a] State funds include $440,000,000 county share provided by SB 154 and subsequent adjustments.
[b] Governor's Budget proposes county share of $484,000,400 for 1979–80 be paid by state.

Expenditure Trends

Table 7 shows total (federal, state and county) funds actually expended under the Medi-Cal program for health care services and administration from 1974–75 through 1977–78, and expenditure projections for the current and budget years. In recent years, total Medi-Cal program expenditures have been increasing very rapidly, doubling approximately every five years.

The budget projects total Medi-Cal program expenditures of $3.6 billion in the current year, an increase of 17.7 percent over 1977–78. Expenditures in 1979–80 are projected to be $4.08 billion an increase of 12.1 percent over 1978–79. The projected growth for the budget year is substantially lower than the 16 to 17 percent annual growth rate experienced in recent years.

Table 8 shows the annual percentage increase for selected categories of Medi-Cal service and administration. As can be seen the increases anticipated in the budget year are substantially less in most cases than those experienced in recent years.

Table 8

Medi-Cal Program
Annual Percentage Growth in Expenditures
by Selected Service Category

Fiscal Years	*Professional Services*	*Drugs*	*Hospital Inpatient*	*Nursing Homes*	*Dental*	*Prepaid Health Plans*	*Program Administration*
1974–75 to 1975–76	33.7%	49.5%	16.4%	12.0%	19.7%	−3.0%	14.5%
1975–76 to 1976–77	24.2	11.0	23.6	15.3	27.3	−22.5	11.7
1976–77 to 1977–78	17.4	9.4	20.4	19.9	21.9	−13.3	14.9
1977–78 to 1978–79 (Estimated)	23.0	12.2	13.1	22.7	3.1	1.3	21.0
1978–79 to 1979–80 (Proposed)	15.6	3.3	12.7	10.6	3.9	18.8	11.7

Expansions in the categories of persons eligible for Medi-Cal is a major reason why program costs have increased rapidly in the 1970s. In 1971, the Medi-Cal Reform Act extended eligibility to medically indigent adults who previously had been a responsibility of the counties at 100 percent state costs. Medical costs for this group are estimated at $581 million General Fund in 1979–80. Passage of Chapter 1216, Statutes of 1973 (AB 134), which implemented the federal SSI/SSP program, also increased the number of disabled persons who are eligible for the program.

Table 9 shows the average monthly number of persons eligible for the Medi-Cal program since 1974-75.

Table 9

Average Monthly Number of Persons
Eligible for Medi-Cal

	1974–75	*1975–76*	*1976–77*	*1977–78*	*1978–79*	*1979–80*
PUBLIC ASSISTANCE						
Aged	326,445	342,566	331,137	328,207	323,400	318,300
Blind	13,432	13,394	12,875	12,850	12,700	12,600
Disabled	273,093	322,579	338,067	348,096	359,900	371,100
AFDC	1,445,950	1,501,083	1,488,696	1,473,148	1,466,800	1,443,200
MEDICALLY NEEDY	167,884	201,943	278,214	325,242	343,200	360,400
MEDICALLY INDIGENT						
Children	61,490	65,565	99,041	129,026	131,900	136,300
Adult	141,766	169,278	237,787	287,596	287,400	289,300
OTHER (Refugees, Etc.)	—	11,275	21,721	23,750	—	—
	2,430,070	2,627,683	2,807,538	2,927,915	2,915,300	2,931,200
Percent of California's population eligible for Medi-Cal	11.6%	12.4%	13.0%	13.4%	13.1%	12.9%

DEPARTMENT OF HEALTH SERVICES—Continued

Table 10 shows that costs in the Medi-Cal program have grown more rapidly for some aid categories than for others. Some of the cost increases relate to increases in the number of persons served while other cost increases relate to inflation in the cost of services per patient. Medically needy and medically indigent costs have grown most rapidly during the four-year time period for which data is available. More than half of the medically needy and medically indigent increases resulted from large increases in caseload, due to liberalization of eligibility criteria. Cost increases for the aged, blind and long-term categories are not attributable to increases in caseload since caseload was stable or slightly declining during the 1974–75 to 1977–78 period. Some of the cost increases related to AFDC and disabled recipients were due to increases in the number of persons served.

Table 10
Medi-Cal Program
Expenditure Increases by Aid Category
1974–75 to 1977–78
(in millions)

	1974–75	*1977–78*	*Percentage Increase in Expenditures*
Aged	$137.4	$200.7	46%
Blind	10.4	14.4	38
Disabled	327.0	526.7	61
AFDC	385.0	610.5	59
Medically Needy	136.4	280.2	105
Medically Indigent Children	38.3	97.5	154
Medically Indigent Adults	192.1	455.0	137
Long-Term Cases	240.5	380.2	58

Medi-Cal Cost Sharing

Table 11 shows the distribution of Medi-Cal costs between the federal, state and county governments.

Under the Medi-Cal Reform Act of 1971, each county's contribution to the Medi-Cal program was set at a fixed amount which increases at the same rate as assessed property values in the county increase. Between fiscal years 1971–72 and 1977–78, county contributions increased from $241.3 million to $410.4 million, a 70 percent increase. During the same period, state Medi-Cal contributions increased from $509.2 million to $1,406.6 million, a 176 percent increase. Unlike the counties, the state's exposure to the effects of medical inflation and caseload growth was not limited. Because the combination of these two factors caused costs to increase more rapidly than assessed property values, state Medi-Cal contributions have risen much more rapidly than county contributions. In percentage terms, the county share of total Medi-Cal expenditures declined from 17.8 percent in 1971–72 to 13.3 percent in 1977–78. During the same period, the federal share declined from 44.5 percent to 41.2 percent, while the state share increased from 37.7 percent to 45.5 percent. Were the state's share still 37.7 percent, General Fund support for the program in 1979–80 would be $331 million less than the budget proposes.

Table 11
Distribution of Medi-Cal Program Expenditures
Shared by Federal, State and County Governments
(in millions)

Fiscal Year	*Federal Funds*	*State Funds*	*County Funds*	*Grand Total*	*Percentage Increase*
1971–72	$601.2	$509.2	$241.3	$1,351.7	—
1972–73	631.5	561.6	250.5	1,443.6	6.8
1973–74	770.3	695.2	269.2	1,734.7	20.1
1974–75	851.5	847.2	296.8	1,995.5	15.0
1975–76	965.6	935.7	328.5	2,229.8	11.7
1976–77	1,136.1	1,154.0	362.9	2,653.0	19.0
1977–78	1,273.5	1,406.6	410.4	3,087.8	16.4
1978–79 (Estimated)	1,530.6	1,687.2	418.0 [a]	3,635.8	17.7
1979–80 (Proposed)	1,724.9	1,868.3	484.0 [b]	4,077.2	12.1

[a] Assumed by state as part of the fiscal relief provided to counties after passage of Proposition 13.
[b] Governor's Budget proposes state assumption of county costs in 1979–80.

Proposition 13 and the Medi-Cal Buy-Out

Chapter 292, Statutes of 1978 (SB 154), appropriated $418 million from the General Fund to "buy-out" the county share of Medi-Cal program expenditures in 1978–79. The Medi-Cal buy-out was part of a $1.5 billion state fiscal relief package for county government.

The $418 million was based on an assumption that assessed values in the counties—and thus the county Medi-Cal share—would increase by only 1.5 percent during the first year of Proposition 13. In fact, reassessments increase assessed values by approximately 10 percent. Therefore, the appropriation for the buy-out of the county Medi-Cal share for 1978–79 should have been $440 million rather than $418 million. The department has informed us that it plans to absorb the $22 million difference by using state funds in Item 248 of the 1978 Budget Act that have became available because of the declining expenditure trend in the program. It is not clear from the language of SB 154, however, that the Department of Health Services has the authority to expend the $22 million to fully buy-out the county share of Medi-Cal program costs.

The Budget Bill contains no proposed appropriation to continue the buy-out of the county Medi-Cal share, which is estimated to be $484,000,400 in 1979–80. However, the Governor's Budget states that the administration supports a continued buy-out of the county share in 1979–80. This buy-out might be accomplished either through the Budget Act or in sepa-

DEPARTMENT OF HEALTH SERVICES—Continued

rate legislation.

B. Medi-Cal Health Care Costs: Item 261

The budget proposes $1,586,885,300 to fund the state share of the cost of health care provided to Medi-Cal recipients. This is an increase of $90,977,162 or 6.1 percent, over the amount appropriated for the current fiscal year. This amount does not include $59,186,400 to increase Medi-Cal provider rates which is proposed in Item 265.

Table 12 provides a more comprehensive picture of the state cost of providing health care (excluding administrative costs) to Medi-Cal recipients. As the table shows, the budget projects a 10.4 percent expenditure increase $160,845,000 if no allowance is made for the "buy-out" of the counties' share. If legislation is passed providing for a continuation of the buy-out, as recommended in the Governor's Budget, state expenditures will increase by 11.5 percent ($226,845,400).

Table 12
Cost of Health Care Provided Through the Medi-Cal Program General Fund 1978–79 and 1979–80

	1978–79	*1979–80*	*Percentage Change*
Item 261 (Health Care)	$1,495,908,138	$1,586,885,300	6.1%
Item 265 (Rate Increase)	16,700,000	59,186,400	254.4
Legislation	640,000	—	NA
Item 275 (Short-Doyle)	54,194,300	59,231,200	9.2
Estimated Surplus	−22,408,538	—	NA
Total 1979–80 Budget Bill	$1,544,457,900	$1,705,302,900	10.4%
County Medi-Cal Share	418,000,000 [a]	484,000,400 [b]	
	$1,962,457,900	$2,189,303,300	11.5%

[a] The full county share is $440 million, of which $22 million is shown in Item 261.
[b] Assumes state will again buy out the county Medi-Cal share.

The Medi-Cal expenditure estimates for health care services 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. Special estimates are those prepared to reflect the impact of legislation recently enacted, court orders, federal regulations and other items not yet reflected in current expenditure trends.

Special Estimates

In total, the special estimates add $28.1 million in General Fund costs ($48.5 million in total) to the Medi-Cal base projection for the current fiscal year. In the budget year, $57.2 million in General Fund costs is added ($132.7 million in total) to the base projection. These adjustments are on a net basis and reflect a large number of individual special estimates. Some special estimates project savings while most project added costs.

Table 13 shows the estimated fiscal impact of major recent program changes. Some of these assumptions are questionable. For example, the budget assumes that the language in the 1978 Budget Act restricting abortions will not be included in the 1979 Budget Bill (assumption number 5 in Table 13).

Table 13
Medi-Cal Special Estimates
Assumptions and Cost Projections
1978–79 and 1979–80

Assumptions	*General Fund Impact* 1978–79	*General Fund Impact* 1979–80
1. Assumes Indochinese refugees will be 100% (rather than 75%) federally funded	—	—
2. Assumes federal share of Cuban refugees will decline to approximately 85% from 100%	$500,000	$800,000
3. Assumes income reporting by recipients will disqualify many, resulting in savings	−5,200,000	−23,586,200
4. Medi-Cal income standards did not increase in 1978–79 per SB 154. Assumes only a 6% increase in standard for 1979–80. Therefore, fewer people qualify for Medi-Cal and program savings result	−8,300,000	−17,635,000
5. For 1978–79 assumes the court will lift its restraining order and Medi-Cal funded abortions will decline but delivery costs will increase. For 1979–80 assumes no budget language restricting access to abortions.	30,549,700	34,593,500
6. Assumes new regulations for developmentally disabled in intermediate care facilities will be effective February 1979, increasing per diem rates	2,470,000	7,907,500
7. Assumes no expansion of adult day health care center, beyond existing five projects.	424,050	424,050
8. Nurse practitioner's services will be reimbursed at physician's rates, rather than 80%	749,400	1,025,200
9. Assumes 40 rural health clinics will be certified and become eligible for increased Medi-Cal reimbursements.	732,300	1,184,100
10. Assumes 84 drug abusing recipients per month will have to obtain departmental approval to purchase drugs	−552,000	−781,000
11. Assumes regulations will reduce program drug expenditures	−1,838,100	−4,936,600
12. Assumes increased federal matching for some nursing home patients resulting in General Fund savings.	−1,994,200	−3,052,300
13. Assumes a 6% increase in providers' fees in 1979–80.	—	59,186,400
14. Assumes the state will pay a federal government audit disallowance related to state hospitals	—	6,494,600
15. Assumes federal government will pay one-half of a lawsuit over dental rates for Indochinese which the state lost.	795,000	—

Medi-Cal Funded Abortions

The Budget Bill does not include the language contained in the 1978 Budget Act which limits the circumstances in which the Medi-Cal program can fund abortions. Accordingly, the budget assumes that there will be 106,100 abortions funded by the Medi-Cal program in 1979–80 at a total cost of $25,462,000 ($24,507,200 General Fund).

For the current fiscal year, the budget assumes that the court order preventing the department from enforcing the Budget Act language will remain in force until mid February 1979. Therefore, the budget assumes that there will be no reduction in the number of Medi-Cal abortions in the period from July 1, 1978 to February 14, 1979. During this period, 65,656

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abortions are expected to be performed under the program at a cost of $21,666,500 ($20,854,000 General Fund)

The budget assumes that the courts will rule in favor of the restrictive Budget Act language and that during the period from February 15 to June 30, 1979, the number of abortion procedures reimbursed will fall to 1,771 and that 25 percent of the women who would have otherwise received a Medi-Cal funded abortion will carry their pregnancies to full term in 1979–80 at a cost of $17 million.

Funding for Item 261

We recommend the Legislature provisionally approve an appropriation of $1,584,433,650 for Item 261 pending receipt and review of updated expenditure estimates in May 1979.

The amount proposed for Item 261 is based on expenditure estimates prepared by the department's Medi-Cal Fiscal Forecast Section in December 1978. In April and May 1979 the estimates will be updated utilizing the latest available patient load and expenditure data, and the amount requested in the item will be adjusted accordingly.

Medi-Cal Surplus

Table 14 shows that actual General Fund expenditures in the Medi-Cal program half-way through the current fiscal year are approximately 5 percent below budgeted levels, despite the court order requiring the program to continue funding abortions. Expenditures for county hospital inpatient and outpatient services are far below anticipated levels. Approximately $37.3 million of the mid-year surplus of $48 million General Fund is due to reduced hospital inpatient expenditures.

The reasons Medi-Cal program health care expenditure are below projected levels are not known. The number of recipients who are using the program is somewhat below expected levels in most service categories but the reason why is not clear. Perhaps quarterly income reporting is identifying more persons whose incomes are too high to allow their continuation in the program. Another likely reason why patient loads are smaller than anticipated is that the allowable income limits for the Medi-Cal program were not increased in the current year by a cost-of-living factor. With lower than normal income limits fewer people are able to establish need for assistance and thereby qualify for the program. Increased audit disallowances are probably another important reason hospital costs are not as high as expected.

Table 14
Medi-Cal Program
Six Months' Comparison of Budgeted Versus
Actual Expenditures for Health Care Services
Item 248—1978–79 Budget Act
General Fund
(millions)

Service Category	*Budgeted Funds (July–Dec. 1978)*	*Actual Expenditures (July–Dec. 1978)*	*Surplus or Deficit*	*Percentage Variance From Budgeted Amount*
1. Physicians Services	$147.6	$148.5	$(.9)	.6%
2. Other Professional Services	33.0	30.4	2.6	−7.9
3. County Hospital Outpatient Visits	21.2	13.2	8.0	−37.7

4. Community Hospital Outpatient Visits	38.4	35.5	2.9	−7.5
5. County Hospital Inpatient Services	113.9	91.6	22.3	−19.6
6. Community Hospital Inpatient Services	258.5	243.5	15.0	−5.8
7. Drugs	50.5	47.4	3.1	−6.1
8. Nursing Homes and Intermediate Care Facilities	144.5	150.0	(5.5)	3.8
9. Ambulances and Other Medical Transportation	6.2	6.2	—	—
10. Prepaid Health Plans	16.3	14.9	1.4	−8.6
11. Redwood Health Foundation	7.7	8.6	(.9)	11.7
12. Dental Services	35.8	40.2	(4.4)	12.2
13. All Other	59.4	55.0	4.4	−7.4
Total	$933.0	$885.0	$48	−5.1%

State Hospital Population Estimates

We recommend that Item 261 be reduced by $1,000,000 on the basis that patientloads in the state hospitals are overstated.

In our analysis of state hospitals for the developmentally disabled (Item 271) we point out that the state hospital population assumed by the budget appears to be overstated by 250 clients. The Medi-Cal program is budgeted to provide support for approximately 225 of these clients at an estimated General Fund cost of $1.0 million. Therefore we recommend a reduction of that amount.

State Hospital Reimbursements

We recommend Item 261 be reduced by $1,451,650 to reflect savings from terminating the medical assistance units in state hospitals.

The state hospitals have separate units that were established to perform utilization review functions in connection with the Medi-Cal program. These units were initially established to ensure state eligibility for federal funding in the hospitals, and the cost of these units has been reimbursed by the Medi-Cal program. In our analysis of Items 271 and 275, we noted that certification reviews have assured that the hospitals are adequately staffed to secure federal funding without the special units, and that funding for these units could be eliminated without adversely affecting the hospitals. Accordingly, we recommend that these units be terminated. Consistent with this recommendation, we recommend a Medi-Cal state hospital expenditure reduction of $1,451,650 General Fund in Item 261 which consists of payments for Developmental and Mental Disabilities.

Hospital Costs and the Medi-Cal Program

In the current fiscal year, the Medi-Cal program will expend approximately $1.14 billion for hospital inpatient services. In the budget year, it is estimated that this expenditure will increase by $145 million, or 12.7 percent, to $1.28 billion. Hospital inpatient charges account for approximately one-third of all Medi-Cal program service expenditures.

Table 15 shows the rapid growth in Medi-Cal program hospital inpatient costs for the four most recent fiscal years. Between 1974–75 and 1977–78, hospital expenditures increased from $582 million to just over $1 billion,

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a 73 percent increase. Approximately 25 percent of the cost increase is related to growth in the number of patients served and the remaining 75 percent is related to increased hospital operating costs including salary increases, additional staff, new equipment, improved facilities and other items.

Table 15
Medi-Cal Program—Hospital Inpatient Expenditures, Patients, Cost per Patient (All Funds)

Fiscal Year	*Expenditures*	*Percentage Annual Increase*	*Patients*	*Percentage Annual Increase*	*Cost per Patient*	*Percentage Annual Increase*
1974–75	$582,249,900		636,387		$842.76	
1975–76	672,029,700	15.4%	698,146	9.7%	942.43	11.8%
1976–77	837,692,300	24.6	744,609	6.6	1,111.54	17.9
1977–78	1,008,483,300	20.4	789,572	6.0	1,314.85	18.3
1978–79 (Estimated)	1,140,998,500	13.1	822,430	4.2	1,387.35	5.5
1979–80 (Proposed)	1,285,790,000	12.7	838,894	2.0	1,532.72	10.5

The department's December estimates project that the rate of increase in hospital expenditures will decline from the 20 percent average annual rate experienced in the last three fiscal years to 13.1 percent in the current fiscal year and 12.7 percent in the budget year.

Table 16 shows hospital inpatient expenditure for the most recent five quarters. Since the last quarter of calendar year 1977 costs seem to have been averaging approximately $88 million per month. The Governor's Budget estimates 1978–79 expenditures will average $95 million a month and 1979–80 expenditures will average $107 million a month.

Table 16
Medi-Cal Program
Recent Hospital Inpatient Expenditure Trends

	Average monthly expenditures (millions)	*Average Monthly number patients*	*Average cost per patient*
3rd Quarter 1977	$81.7	64,149	$1,273.60
4th Quarter 1977	90.6	67,148	1,349.26
1st Quarter 1978	84.8	64,061	1,323.74
2nd Quarter 1978	88.9	66,789	1,331.06
3rd Quarter 1978	87.0	65,694	1,324.32
4th Quarter 1978 (Est.)	88.4	66,967	1,320.05

County Hospitalization Patterns

We recommend the department review the average length of stay of Medi-Cal patients in county hospitals and, if warranted, devise a corrective action plan to reduce the average stay.

Medi-Cal recipients receive hospital inpatient services either from community hospitals or county hospitals. Approximately 75 percent of Medi Cal-patients are treated in community hospitals and 25 percent are treated in county facilities.

In 1977–78, the average county cost of treating a Medi-Cal patient was $1,800 while the average cost per patient treated in community hospitals was $1,187. In both county and community hospitals, the cost per day of treating a patient is similar, $183.35 in county hospitals and $175.76 in community hospitals. (Community hospital average cost per patient day does not include physicians fees whereas county hospital average cost per patient day generally includes such fees.) However, county hospitals keep Medi-Cal patients on the average three days longer than community hospitals. Three day's care at $183.35 per day accounts for most of the additional cost of treating a Medi-Cal patient in a county facility. We do not know whether counties keep patients longer out of medical necessity or out of the desire to maximize Medi-Cal revenue and thus reduce county costs. Table 17 shows the average length of stay by aid category.

Table 17
Average Length of Hospital Stay by Aid Category
1977–78

Aid Category	*Average Number of Days Hospitalized*	
	County Hospitals	*Community Hospitals*
Aged	12	8.8
Aged—Long term cases	32.7	19.3
Disabled	10	7.9
AFDC	5	4.2
Medically Needy	12	7.7
Medically Indigent Adult	8.4	7.0
Medically Indigent Children	6	5.9

Given the large number of cases in each aid category, one might expect the percentage of difficult, time consuming cases to be about the same in county hospitals as in community hospitals. Counties may treat more difficult cases which could justify the longer periods of hospitalization. However, because random samples of county patient records have not been conducted, we have no basis for verifying that county hospital cases are indeed more difficult.

In fiscal year 1977–78, county hospitals submitted claims for 164,597 Medi-Cal patients at a cost of $296 million. The average length of stay reflected in these claims was 9.8 days. If the average claims had been for 6.8 days, the average length of stay in community hospitals, the program would have been billed for $90.5 million less.

We recommend that the department conduct a statistically valid random sample of county patient records to determine if the average length of stay in county facilities is appropriate.

New Medi-Cal—Fiscal Hospital Audits

We recommend approval of 50 positions for special medical-fiscal hospital audits and further recommend that supplemental report language be adopted directing the department to report by January 1980 on the effectiveness of the project.

The department implemented a new type of hospital audit on a pilot

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basis in 1977–78 using federal Title II positions. Five hospitals were audited with medical staff in addition to fiscal auditors reviewing claims. Such audits are known as cost watch audits The first audits resulted in very large disallowances of claims. Thirty-seven percent of the 1976 Medi-Cal billings submitted by the five hospitals were disallowed.

The medical portion of the audit is performed on a statistically valid random sample of the hospital's claims. The findings can then be reliably expanded to all of the hospital's Medi-Cal claims.

Nurses first review patients charts for questionable services. Team doctors then review the questionable charts to determine the reasonableness of the billing. The medical auditors determine if the services were medically necessary and properly ordered. If the services were necessary and properly authorized the medical staff also determines if they were actually rendered and properly documented.

The auditors spend substantially more time on a cost watch audit than they spend on a normal hospital audit. This extra time is spent reviewing hospital contractual arrangements, administrative costs, charges made by related entities, and converting medical staff findings into fiscal disallowances.

The department is requesting General Fund support for cost watch activities on a limited term, one year basis. We believe that this time limitation has merit because it will permit a complete review and evaluation of this new approach to hospital audits.

We recommend that the Legislature adopt the following supplemental report language regarding the cost watch project.

"*Item 263*—By January 1, 1980 the Department of Health Services shall submit a report evaluating the achievements and problems experienced by the cost watch project since its inception. The report shall in addition include the following information:

(a) A summary listing of hospitals audited and dollar value of disallowances made.

(b) A listing and discussion of the major categories of disallowances made.

(c) A discussion of the kinds of disallowances which have not been upheld in administrative hearings or in court proceedings.

(d) Recommendations for staffing and other changes in the cost watch project which would improve audit effectiveness.

(e) A listing and discussion of cost watch staff recommendations for regulation or statute changes.

(f) A discussion of the state's ability to disallow excessively high room rates, medically unnecessary services, and excessive costs of hospital contracts in radiology, pathology and emergency room services."

Replacement of Vetoed Auditor Positions

We recommend approval of the request for 19 hospital auditor positions.

The budget proposes the reestablishment of 19 hospital auditor positions at a cost of $705,305 ($387,917 General Fund).

During the 1978–79 budget hearing process, the Controller requested funds for 39 Medi-Cal audit positions. The Legislature approved the request and at the same time reduced the Department of Health Services budget by a corresponding amount. Subsequently, the Governor deleted funds for 19 of the audit positions from the Controller's budget so as not to split the hospital audit activity between two separate state departments.

The Governor's veto had the effect of reducing the hospital audit program from a staff of 87 to a staff of 68. This reduction means fewer comprehensive field audits and more superficial desk audits must be performed in 1978–79. It also means that more than 150 of the 628 hospital audits scheduled for this year will not take place. To the extent that this reduction results in a desk audit in lieu of a field audit, approximately $132,000 in audit disallowances will be lost. The average field audit produces $148,706 in disallowances whereas the average desk audit produces disallowances of $16,878.

The fiscal effect of the Governor's action has not been quantified. Many hospitals because of their size and complexity cannot be effectively desk audited. Therefore, although the auditors still do field audits, the level of audit penetration must be reduced in order to avoid large hospital audit backlogs that could not be completed within the three-year statute of limitations on hospital audits. The cost of less comprehensive field audits is unknown.

The average hospital audit results in $113,000 in disallowances, and the average auditor can produce 12 audits per year. The budget proposes the addition of 14 audit and five support positions. Normally these 14 auditors would produce approximately 168 audits with total disallowances of $20,664,000, at an audit cost of $705,305. However, these auditors are likely to be less productive due to their inexperience. Assuming that they are only 50 percent as productive as existing staff, and recognizing that some of their disallowances would be discovered in less comprehensive audits, they should still produce $15 of audit disallowance per $1 of cost.

Review of Selected Hospital Contracts

We recommend that the department's Audit Section undertake a comprehensive review of hospital contracts with pathologists, radiologists, and emergency room physicians.

We requested the department to furnish examples of the fees collected by doctors having radiology, pathology and emergency room service contracts with hospitals. Information supplied by the department indicates that contracts which provide for physician reimbursement based on a percentage of the hospital's pathology, radiology, or emergency room charges may result in very large fees being paid to a single physician.

We recommend the department's Audit Section undertake a comprehensive study of pathology, radiology and emergency room contracts to determine:

1. The variation in the amounts paid to individual physicians for performance of similar services.
2. The average hourly compensation for pathologists, radiologists, and emergency room physicians and the variations in hourly compensation.
3. What workload indicators exist with which to establish variations in

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charges per unit of service provided.

If the Audit Section can develop average hourly costs or average unit costs for physicians' pathology, radiology, and emergency room services, it may be possible to adopt a schedule of maximum reimbursements, and avoid the excessive costs generated by current contractural arrangements.

Model Field Office

We recommend the department institute a pilot project to improve its system of reviewing and approving purchase of certain medical services.

The department currently operates a program to review and approve nonemergency admissions to hospitals and nursing homes. Purchase of certain other services and equipment such as purchase of hearing aids, prosthetic and orthotic devices must also be approved. The reviews are conducted by the medical personnel of the department's Field Services Branch with assistance from clerical and administrative staff. The branch has 12 offices located throughout the state. Providers submit their requests on a form called the Treatment Authorization Request (TAR). The amount and kind of support material that must be submitted with the TAR, such as laboratory reports or x-rays varies depending upon the type of case and who is doing the review.

The department estimates that the prior authorization system operated by the branch saves the Medi-Cal program many times the cost of its operation. The department estimates this cost to be $14 million in 1978–79. Program savings result when unnecessary surgeries are denied and when length of hospital stays are controlled. Savings are also realized when unnecessary nursing home admissions are denied or when the purchase of unnecessary service or equipment is either denied or modified.

Although the prior authorization program helps to control unnecessary expenditures, it has certain deficiencies. Our analysis of the prior authorization system as it relates to hospital inpatient admissions and ancillary services indicates that the most significant of these are as follows:

1. The current Field Service system does not attempt to control unnecessary hospital ancillary services (laboratory work, x-rays, drugs, etc.).

2. The current system cannot control abuse of "emergency" hospital admissions. Presently a physician can avoid program review and prior authorization if the patient is admitted and discharged within a three-day period.

3. There are no standardized length of stay guidelines by diagnosis which can be used to minimize length of stay, consistent with good medical practice. Currently each Field Service physician authorizes the length of stay he believes appropriate. Extensions of stay are requested and approved if needed.

4. There is no system to verify if the patient's actual condition is the same as described on the TAR. Auditors believe that TARS often contain misleading information.

5. Field Services staff does not have routine access to private medical consultants whose medical opinions would be of value in considering particularly complex or costly cases.

6. There are no written guidelines specifying what kind of supportive information such as x-rays and laboratory reports should accompany the TAR.

7. The patient file system in many Field Services offices is unmanageable.

8. The current prior authorization system does not routinely collect cost benefit and management information.

9. It takes too long to act on a TAR. Although the department's goal is to process TARS within five days of receipt, it generally takes much longer, due, in part to the high number of vacancies in the branch. In fact, it takes 17 days to act on a TAR in the Los Angeles area.

Because the department shares many of the same concerns we requested that the department develop a preliminary plan and cost estimate for making major operational improvements in one of the 12 Field Services offices. Such a pilot operation could demonstrate that improvement of the prior authorization system would be cost beneficial and would save the Medi-Cal program significant unnecessary expenditures.

In response, the department indicated that the Oakland office should be considered for pilot project purposes. In support of such a project, the department believes that it should:

1. Expand its hospital on-site staff by six positions to begin a program to control hospital ancillary services such as excessive laboratory tests, x-rays, and provision of unnecessary drugs and equipment.

2. Stop authorizing a specific number of hospital days for length of stay. Instead on-site staff would review patient records to determine a reasonable discharge day on a case-by-case basis.

3. Stop processing nursing home admissions in the Field Service office. Instead the nurses who currently make federally required annual reviews of each nursing home case would also review and approve admission of new cases when they make their routine on-site visits.

4. Review all hospital admissions, even emergency admissions, using on-site nurses within 24 hours. Review of all admissions would reduce abuse of the emergency admissions procedure and fewer nonemergency patients would be admitted on an emergency basis.

5. Convert the Oakland Field Office's patient case files to microfilm so that the employees could all have immediate access to key information. The intent of this change would be to reduce the TAR processing time.

6. Use taped telephone recordings to answer routine provider and patient questions in order to free staff time for case review activities.

7. Acquire computer services to track workload, keep cost benefit information, develop profiles for control of hospital ancillary services and develop profiles on providers.

We believe this project has merit and therefore recommend the department submit a budget change proposal to implement such a project in one of the 12 offices which process treatment authorization requests.

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Professional Standards Review Organizations (PSROs)

We recommend that the department complete a detailed report on PSROs with an updated funding request by April 15, 1979.

Federal law (PL 92-603) mandates the existence of Professional Standards Review Organizations (PSROs). The purpose of a PSRO is to review hospital services provided to federal Medicare and other patients. The case reviews are done to insure that the treatment provided was medically necessary and that the length of stay in the hospital fitted the circumstances of the case.

The way in which PSROs judge the appropriateness of treatment varies. Some use detailed medical manuals to set general standards of good treatment. Others allow individual reviewers to use their own judgment on a case-by-case basis. Some PSROs delegate their authority to hospitals to do reviews, while other PSROs do all of the case reviews with their own staff.

In California, the federal government has contracted, at federal expense, with 22 operational PSROs and six PSROs in the planning stage. For some time the federal government has been insisting that the state sign memorandums of understanding (MOUs) with PSROs so that California's Medi-Cal cases will be reviewed by PSROs along with Medicare cases. Currently the department's Field Services medical staff do hospital admission reviews for Medi-Cal cases.

The process of signing MOUs has proceeded slowly because of unresolved issues between the state and the federal government regarding the operation of PSROs. One issue has involved the state's insistence that PSROs have the capacity to review the need for service *before* the service is provided. The department believes it is more effective to prevent an unnecessary surgery than it is to try to deny a claim after the services have been provided. Recently, the federal government authorized the state to require prior authorization mechanisms on a pilot basis.

The second major issue between the federal government and the department involves monitoring PSROs and disciplining ineffective ones. The department and the federal government may soon agree on a state plan for monitoring PSROs. If this issue is resolved, the department will probably begin to sign agreements with PSROs at the rate of approximately two per month.

We recommend that the department submit a complete status report on and funding request for the PSRO program by April 15, 1979. Between now and April, the status of the program, which is in a state of flux, may become clearer. We recommend that the department's report provide the Legislature with a complete briefing on the areas of agreement and disagreement between the state and federal government in regard to PSROs, and on the status of federal waivers. The report should also describe (1) how the state plans to monitor PSROs, (2) what findings and recommendations came out of recently completed departmental evaluations of PSROs, (3) what geographical areas of the state will still require a Field Service office for hospital prior authorizations in 1979–80, (4) how many positions and how much money can be removed from the Field Service

Section's budget, (5) which Field Service Section positions should be redirected to other activities, (6) what state funded PSRO contracts have been signed for review of MI adult cases and at what estimated cost for 1979–80, and (7) how many additional contracts the department contemplates signing and at what cost per contract.

Hospital Data Analysis

We recommend that the department enter into a contract with the California Health Facilities Commission in 1978–79 to analyze Medi-Cal hospital data contained on computer tapes and to determine if the department should purchase additional analytical and data processing services from the commission.

By April or May 1979, the California Health Facilities Commission (CHFC) will have developed a computer program that will allow the analysis of what medical problems are treated in individual hospitals, how frequently they are performed and at what cost. The Medi-Cal program should take advantage of this capability so as to identify the specific costs of various illnesses, how frequently certain surgeries and other procedures are performed, how much variance there is between hospitals in the cost of treating certain common problems, and if there are patterns of excessive surgery and excessive testing associated with particular hospitals. The commission informs us that it would cost approximately $6,000 to process the Medi-Cal paid claims tapes through its computer program and provide an analysis of the data.

We recommend that the department contract with the commission during the current fiscal year to secure these services. The resulting information could be useful to the department in controlling Medi-Cal expenditures.

We further recommend that the commission and the department study the current availability of hospital and nursing home data within the department and make a joint determination of the problems associated with and the cost of extracting information from existing sources. The commission informs us this research effort would cost the commission approximately $5,000. The Health Facilities Commission is data processing oriented and has an analytical staff knowledgeable in the fiscal aspects of nursing homes and hospital operations. Because the department does not have this same combination of expertise, we believe it should routinely purchase necessary research oriented data processing and analytical services related to hospital and nursing home operations. Any contract costs to the department resulting from this recommendation should be absorbed within existing or requested resources.

C. Fiscal Intermediary Services: Item 262

The state does not directly pay doctors, pharmacies, nursing homes, hospitals and other providers for the services they perform for Medi-Cal recipients. Instead, the state has a contract with a nongovernmental organization, Medi-Cal Intermediary Organization (MIO), under which the MIO reviews and pays claims which providers submit. Since the Medi-Cal program's inception in 1966, the state has contracted with MIO (Blue Cross North and South and Blue Shield) for fiscal intermediary services.

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The state is currently in the process of transferring the fiscal intermediary activities to a new contractor, Computer Science Corporation.

The New Fiscal Intermediary Contract

In October 1976 the department received legislative authorization to prepare a Request for Proposal (RFP) on a contract for California's Medi-Cal claims processing business. The final RFP was released in October 1977 and in March 1978 technical proposals were submitted by five firms. One firm withdrew during the technical evaluation period and the proposal of a second firm was judged unacceptable. The remaining three firms submitted the following bids for the five and one-half year contract:

Firm	*Bid*
Bradford National Corporation	$159,720,000
Blue Shield Services Corporation	$133,899,000
Computer Sciences Corporation	$129,599,728

Computer Sciences Corporation (CSC) was awarded the contract in September. CSC is acquiring staff, buildings and equipment, writing computer programs and otherwise planning and developing its system to process Medi-Cal claims during the current fiscal year. CSC will start processing claims for drugs in July 1979, nursing homes in September 1979, hospitals in December 1979, and physicians and others in March 1980.

The CSC contract does not include the processing of dental claims which are currently processed by California Dental Services. This fiscal year the department is developing a dental request for proposals (RFP) so that firms interested in processing dental claims may submit competitive bids. The budget assumes that a new dental contract will be signed and that development work costing $2,972,600 will begin in 1979–80.

The Budget Proposal

We recommend the Legislature provisionally approve the appropriation of $25,036,400 for Item 262 pending receipt and review of updated expenditure estimates in May 1979.

The budget proposes $25,036,400 for the state share of the cost of the intermediary function in 1979–80. This is an increase of $5,566,500, or 28.6 percent, over the $19,469,900 estimated current year expenditure. The large percentage increase is accounted for by several factors. First, the MIO phase-down cost reductions will not offset the increases in the new CSC contract in 1979–80. Second, there will be new costs associated with the development stage of the new dental contract. Third, the federal share of most development costs on the CSC contract will decline from 90 percent to approximately 75 percent as the contract enters the operational phase.

Table 18 shows the fiscal intermediary cost for 1978–79 and 1979–80.

Table 18
Governor's Budget Estimates of Medi-Cal Fiscal Intermediary Contract Expenditures—State, Federal and Total Funds 1978–79 and 1979–80

	1978–79		
Fiscal Intermediary	*State Funds*	*Federal Funds*	*Total Estimated Expenditures*
Current MIO Contract	$19,469,900	$32,745,600	$52,215,500
New CSC Contract	1,941,700	8,375,000	10,316,700
New Dental Contract	—	—	—
	$21,411,600	$41,120,600	$62,532,200
Fiscal Intermediary (Item 262)		*1979–80*	
Current MIO Contract	$15,514,600	$26,889,400	$42,404,000
New CSC Contract	8,035,500	17,061,900	25,097,400
New Dental Contract	1,486,300	1,486,300	2,972,600
	$25,036,400	$45,437,600	$70,474,000

Transition Report on Fiscal Intermediary

We recommend that by March 15, 1979, the Medi-Cal Procurement Project Branch prepare a status report on conversion to the new fiscal intermediary.

Given the size of the new fiscal intermediary contract, and the potential for program disruption if problems develop in the transfer of claims processing functions from MIO to CSC, we believe the Legislature should be informed about changes and problems in converting to the new fiscal intermediary.

Accordingly, we recommend that the department submit a report by March 15, 1979 that discusses:

1. Organizational structure of the new contractor, comparing manual workload processing (by claim type) under the existing and new system, and comparing manpower devoted to manual processes.
2. Plans for and costs of processing residual claims left at MIO.
3. Reasons for 28.7 percent, $11,621,750, increase in MIO operating costs in the current year.
4. Progress and problems the department has encountered in assuming functions heretofore administered by MIO.

Improved Medi-Cal Estimates

We recommend the Medi-Cal Procurement Branch prepare detailed narrative assumptions and other budgetary information which supports and explains the estimates of fiscal intermediary contract costs for the current and budget year. This budgetary support material should routinely be submitted with the Medi-Cal estimates in the future.

Currently, the department's Medi-Cal estimates contain very little narrative or other material explaining how the fiscal intermediary cost estimates are derived or what assumptions were used in preparing them. We recomend that the Medi-Cal Procurement Branch routinely prepare briefing material which explains changes in staffing patterns, workload, work procedures and other factors which affect costs and which also ex-

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plain how the estimates were derived and what assumptions were used. The intent of this report would be to notify the Legislature of changes within the fiscal intermediary contracts which will impact costs or the delivery of service. The material should be routinely prepared and submitted with the December and May Medi-Cal estimates.

To implement this recommendation, the following language should be added to Section 28.3 of the Budget Act which currently requires the department to prepare the Medi-Cal estimates.

"The department shall also prepare detailed narrative assumptions and other appropriate budgetary information which supports and explains expenditure estimates for fiscal intermediary services."

Third Party Liability Collections

We recommend that 35 positions and funds ($532,593 General Fund) for third-party liability collection activities be eliminated from the department's 1979–80 operating budget until it is clear how much the activity will cost and how it will be organized.

When a Medi-Cal recipient is injured in an accident, another party who has insurance coverage is often liable for the medical bills which the Medi-Cal program has paid. The fiscal intermediary has a program to recover these costs from liable third parties.

Under the terms of the new contract, the fiscal intermediary will no longer be responsible for these recovery activities. As a result, the Department of Health Services requested 35 positions and $968,351 ($532,593 General Fund) for 1978–79 so that it could assume responsibility for the activity. The Legislature approved the request.

To date, only eight of the 35 positions approved for this collection activity have been filled, and the transfer of the activity to the state is at a standstill. This project has not been able to move forward because of (1) the freeze on positions, (2) the department's need to achieve assigned salary savings and (3) MIO is still available to operate this collection function. MIO is paid by funds appropriated in Item 249 of the 1978 Budget Act, not from the department's contract funds.

Ultimately, something must be done to assure that the $5.5 million now collected by the fiscal intermediary continues to be collected. The department is considering either contracting for this activity or directly administering it.

We recommend that the Legislature remove the position authority and funds granted for this function until the department specifies how the function is to be operated in 1979–80, how much it will cost and how many positions are required.

Increases for Surveillance and Utilization Review Section

We recommend denial of 17 of 33 positions requested for the SUR Section for a reduction of $545,491 ($236,576 General Fund). We further recommend that the remaining 16 positions be approved on a limited term one-year basis.

The department is requesting 33 new positions and $1,090,982 ($473,153 General Fund) to expand Surveillance and Utilization Review (SUR) activities.

The SUR Section was established in January 1977, and is staffed with medical, administrative, and clerical personnel. The purpose of the SUR Section is to identify and take corrective action against doctors who provide unnecessary or substandard medical care. The section also identifies and deals with Medi-Cal recipients who abuse the program, often by acquiring excessive amounts of drugs. Finally, the SUR Section has a unit which audits pharmacies in order to identify and recover overcharges.

The budget proposes to create a new unit staffed with the 33 requested positions which would be established to identify cases with high potential for abuse so that the medical field staff could use their time more effectively. Initially much of the proposed staff would work closely with the new fiscal intermediary to develop computerized reports identifying potential program abusers. The present fiscal intermediary now performs many of the case finding, development, and referral activities which the department intends to assume during the transition to the new fiscal intermediary.

In order to carry out its mission, the unit would, using computer reports, attempt to identify potential abusers. It would also acquire claims and other material needed to evaluate the case, and if warranted, refer the case to the medical staff for possible onsite review of the provider's files. Once an investigation of a provider had been completed, the unit would track the case if it went on to other units in the department, to the attorney general, to licensing boards or to local medical societies.

We recommend that only 16 of the 33 positions be funded and that these positions be funded on a limited term one-year basis. We make this recommendation for the following reasons:

(1) It is not clear what level of manpower will ultimately be required to operate an effective case finding and case development capacity.

(2) A case finding unit should be developed gradually. Currently, approximately 40 of the 65 referrals a month come from sources other than the fiscal intermediary. These referrals will continue with or without a new unit. In addition, referrals will continue to come in from the current fiscal intermediary until March 1980.

(3) It is not clear that a large, permanent expansion of the SUR Section will increase the section's productivity. It is very difficult for the Medi-Cal program to stop doing business with the small minority of doctors who provide unnecessary medical service. Termination of a provider from the program involves a cumbersome administrative hearing process. In the last two years only six providers have been terminated by the SUR program and another 14 are awaiting hearings. Although there are some other ways of controlling an abusing doctor (such as special review of billings and requiring that support documentation accompany billings), we are concerned that the SUR's program does not yet have adequate authority to effectively control provider abuse.

We recommend that 17 positions, instead of the 33 requested, be approved for the budget year, because it will take time to phase in the casefinding activity and the level of staff effort required for this activity is unknown. Furthermore, we recommend against making the 17 positions permanent until the unit has gone through a development stage and until a system for processing workload and workload volume is established. If

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the positions are made limited term, they will have to be justified again for 1980–81 and one year of actual experience will be available as a basis for preparation of the budget request.

During hearings on the 1978 Budget Act, the department proposed the use of a new tool to help control provider abuse. Providers were to be required to sign agreements setting forth minimum provider responsibilities. If the SUR Section later discovered that a provider was overbilling or engaging in other improper practices, the department would refuse to renew the contract. Thus the provider would be dropped from the Medi-Cal program without the need for a cumbersome administrative process. This approach, however, was not implemented even though the department received funding for five positions to do so. However, the director has recently indicated that the concept of provider agreements is again being considered.

D. County Medi-Cal Eligibility Determinations: Item 263

The budget proposes $104,085,500 from the General Fund as the state share of the Medi-Cal eligibility determination cost in 1979–80. This is $10,546,400, or 11.3 percent, more than the current estimated expenditure.

County welfare departments determine the eligibility of medically needy and medically indigent applicants for the Medi-Cal program. The cost of this determination is fully reimbursed by the state and federal governments. AFDC and SSI/SSP (aged, blind and disabled) recipients automatically receive a Medi-Cal card when they become eligible for cash assistance. No part of the cost of determining their eligibility for welfare is charged to the Medi-Cal program.

The counties do not contribute toward the cost of the Medi-Cal eligibility determination process even though they administer the program. The state's share of Medi-Cal eligibility determination costs is 69 percent and the federal share 31 percent. The state pays 50 percent of medically needy and medically indigent children's eligibility determinations costs and 100 percent of medically indigent adult eligibility determination costs. Table 19 shows the total costs of county Medi-Cal administration since 1972–73.

Table 19

Medi-Cal Program Expenditures for County Welfare Department Medi-Cal Eligibility Determinations 1972–73 to 1979–80

Fiscal Year	*Total*	*Increase over previous year*
1972–73	$41,131,002	—
1973–74	60,834,078	47.9%
1974–75	85,467,686	40.5
1975–76	102,082,463	19.4
1976–77	107,978,619	5.8
1977–78	123,570,247	14.4
1978–79 (estimated)	136,028,771	10.1
1979–80 (proposed)	150,217,300	10.4

The County Administrative Cost Control Plan

The Budget Act of 1975 required the Department of Health to develop and implement a plan to effectively control the growth in Medi-Cal county administrative costs which are totally paid by the federal and state governments. This mandate for cost control has been in Budget Acts each year since then. The administrative cost control plan allocates to each county an amount of funds within which it must administer the Medi-Cal eligibility program. County allocations are based on productivity expectations. Counties in which productivity per worker is low compared to other counties receive smaller allocations than they would need to operate at their current level of efficiency. Such counties can either improve worker productivity or provide county funds to make up the difference.

Several factors are important to the success of an administrative cost control plan of this kind. First, realistic productivity goals must be established, such as those which have been attained in some counties.

Second, the state must not increase allocations except for agreed-upon cost-of-living increases, unanticipated workload increases or other circumstances beyond the counties control. This means that if the state does not expend all of the funds appropriated for county eligibility determinations, it should not use the excess to "bail-out" a county which has failed to meet productivity expectations.

Intake and Application Costs

County welfare departments Medi-Cal workload can be divided into two categories. There is the work related to cases that already have been approved (continuing workload) and the work associated with applications (approvals and denials), intercounty transfers and changes from one aid category to another (intake workload).

Table 20
Medi-Cal Program
County Welfare Department Intake Costs and Productivity
1977–78

	Cost per application processed[a]	*Applications processed per Eligibility Worker*[b]
Sacramento	$36.90	63.9
Santa Clara	37.62	64.3
San Bernardino	38.07	50.0
Riverside	38.51	57.9
Fresno	44.40	45.9
Contra Costa	50.33	54.0
Orange	54.23	42.3
San Francisco	57.39	45.1
San Diego	62.04	33.8
Alameda	66.43	38.3
Los Angeles	72.44	43.5
Remaining Counties	43.92	55.1

[a] Costs include eligibility workers' salaries and benefits plus overhead support costs.
[b] Applications include intercounty transfers and changes between aid categories.

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Table 20 shows that, in spite of improvements made in recent years, there is still considerable variation in the cost of processing an application and in the number of applications processed per eligibility worker. The table focuses on only the largest 11 Medi-Cal counties because they account for 80 percent of the cost of Medi-Cal eligibility determinations. Variations in cost and productivity in the medium size counties and in the small counties are similar to variations in the largest 11 counties.

Continuing Case Workload Costs

Table 21 shows that the unit cost and the productivity per eligibility worker varies considerably between counties in the processing of continuing cases.

Table 21
Medi-Cal Program
Selected County Welfare Departments
Continuing Case Costs and Productivity

	Monthly cost per case [a]	*Continuing cases per eligibility worker*
Fresno	$5.29	385
San Bernardino	5.31	358
Riverside	5.84	384
Orange	6.37	361
Sacramento	6.88	342
San Diego	7.14	294
San Francisco	9.19	285
Santa Clara	8.37	291
Alameda	8.64	292
Los Angeles	10.06	315
Contra Costa	10.47	260

[a] Includes support cost for clerical staff, administrative staff space, data processing, etc.

There are several factors which account for large variations in Medi-Cal unit costs among counties. Foremost among these factors are variations in salaries and benefits provided by counties. When the county administrative cost control plans were established in 1975, these salary and benefit differences were accepted as unavoidable if the counties were going to continue to operate the local welfare department, instead of the state. Had the state not decided to accept the variations in county salaries and benefits, the state could have gone to a system in which the counties were paid a standard dollar amount per unit of workload processed. Adoption of such a system, however, would have meant that several large urban counties would have had to make fiscal contributions toward administration of Medi-Cal eligibility determination programs. This was not the intent of the cost control plan. Instead, it attempted to establish an incentive for counties to stay within fund allocations or face cost overruns at county expense.

Revision of County Cost Control Plan

We withhold recommendation on the $104,085,500 proposed for county eligibility determinations (Item 263). Instead, we recommend the county administrative cost control plan be revised to (1) include more stringent productivity expectations, (2) change the base year to 1977–78, (3) incorporate new workload unit definitions, and (4) reduce the allocation of state and federal funds to counties where productivity per worker is below the revised minimum expectations. We recommend the appropriation for Item 263 be recalculated based on the revised cost control plan provisions.

There are several problems with the existing cost control plan:

1. Substantial variations in productivity still exist between counties, and these variations should be reduced.

2. The current county administrative cost control plan makes no further demands for improvements in productivity in 1979–80.

3. The current administrative cost control plan tends to protect the level of employment in county welfare departments. This is inconsistent with the need to increase the efficiency of government. (It is also unique: there is no mechanism in place which offers similar protection to employees in county hospitals and county public health programs, for example.)

We recommend that the administrative cost control plan continue to operate with the same general principles but that the following changes be made:

1. We recommend the base period from which productivity expectations are taken be changed from 1975–76 to 1977–78. We make this recommendation for the following reasons:
   a. Data distinguishing intake workload from continuing workload is now available. It was not available in 1975–76
   b. Major changes in eligibility workload resulted from amendments to the law and regulations in 1977.
   c. The productivity expections established in the 1975–76 base were reasonable as a beginning point. They should not be regarded as unchangeable.

2. We recommend that county allocations be calculated on the basis of a continuing caseload of not less than 325 cases per eligibility worker and an applications caseload of not less than 55 applications (dispositions) per eligibility worker. The number of recommended cases is based on current county averages.

3. We recommend that county overhead support allocations be calculated by using no more than the current statewide average of $1 for each $1 spent on eligibility worker salaries and benefits. Overhead consists of administrative and clerical staff, rent, travel, data processing, charges made by other county agencies, and other operating costs. Table 22 shows the wide variations between counties in the amounts spent on overhead support.

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Table 22
Medi-Cal Program
County Welfare Department Eligibility Determination Costs
Overhead Cost Ratios

	Overhead per $1 of eligibility worker cost
Fresno	$.57
Sacramento	.63
San Diego	.65
San Bernardino	.74
Orange	.88
Santa Clara	.88
San Francisco	.96
Alameda	.97
Riverside	1.01
Contra Costa	1.05
Los Angeles	1.24

4. We recommend that the department develop a phase-in procedure for those counties where allocations would be reduced too sharply if the productivity minimums discussed above were fully implemented in 1979–80. The recommendations for a phase-in should be presented to the Legislature by April 1, 1979. Any phase-in, however, should only be approved if the county welfare department commits itself to a policy of not filling vacancies in order to improve productivity per worker.

5. We recommend that the Legislature include the following Budget Act language that would clarify the department's authority to refuse to fund county cost overruns:

"Provided further that during the 1979–80 fiscal year the department in administering the plan to control county administrative costs shall not allocate funds to defray county cost overruns which result from county failure to meet minimum productivity expectations."

The language in Item 263 of the 1979 Budget Bill states only that funds will be controlled within the amount appropriated. Some counties believe that if there is a year-end surplus in the item, the state is obliged to fund all cost overruns, even those caused by a county's failure to meet its productivity goals.

CHILD HEALTH AND DISABILITY PREVENTION PROGRAM: ITEM 264

We recommend approval.

The budget proposes $6,888,918 for support of the Child Health and Disability Prevention (CHDP) program in 1979–80. This is an increase of $192,884, or 2.9 percent, over estimated current-year expenditures. Local assistance funds will go to (1) support local health departments through allocations for nonmedical program support, (2) enhance outreach to Medi-Cal recipients, (3) pay for medical screening services to first graders not eligible for the Medi-Cal program, and (4) reimburse schools for program support. The budget proposes that the CHDP program is to be administratively included in the Medical Care Standards Division.

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 Services 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 for 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. In the current year a family of four could have an annual income of $10,152 and qualify for this screening. The Medi-Cal program pays for screening, diagnosis and treatment for those eligible. The department estimates 380,000 screenings for this fiscal year, and approximately 475,000 during the budget year.

E. Medical Provider Rate Increases: Item 265

The budget proposes $61,879,640 for provider rate increases. Of this amount, $59,186,400 (95.6 percent) is intended for a 6 percent rate increase for Medi-Cal providers. The remainder is proposed for the Crippled Children's program and other programs. Hospital rate increases of 14.4 percent are in addition to the $59,186,400 and are funded as part of Item 261.

Proposition 13 and Provider Rate Increases

Following the passage of Proposition 13, the Legislature removed all but $25 million of the funds proposed for Medi-Cal rate increases from the 1978 Budget Bill. The $25 million consisted of $13,700,000 to increase the outpatient rates paid to hospitals which employ physicians (county, teaching and children's hospitals) and $11,300,000 to increase outpatient fees in county hospitals, county contract hospitals, free clinics and community clinics.

The Governor reduced the $11,300,000 to $3 million and added veto language instructing the department to use the funds only for free clinics and community clinics, and to develop a means of reimbursing clinics on an actual cost basis.

1979–80 Request Lacks Detail

We withhold recommendation on Item 265 ($61,879,640) pending submittal of a detailed Medi-Cal provider rate increase proposal to the Legislature.

The budget does not indicate how the requested 6 percent medical provider rate increase proposed for 1979–80 is to be allocated among various providers. It indicates, however, that the department is developing an allocation plan based on previously completed rate studies. Table 23 shows which providers could be granted rate increases and the amount they would receive if each received 6 percent.

The 1978 Budget Bill, as introduced, also proposed a block amount for provider rate increases without specific recommendations for allocation. Late in the budget hearing process the department released a list showing how the funds then being requested would be allocated among providers. This list showed that some providers would have received no increases

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while other providers would have received "policy and equity" increases of over 60 percent. Most providers would have received a 6 percent increase. No written material was prepared in support of the rate increases proposed by the department.

Table 23
Medi-Cal Program
Cost of Six Percent Provider Rate If Equally Distributed Among All Provider Types

Provider Type	*1979–80 Total Expenditures by Provider Type with 6% Increase*	*Total Cost of 6% Increase*	*General Fund Share of 6% Increase*
Physicians	$651,664,300	$31,066,900	$18,403,300
Other Medical:			
Laboratory Facility	35,012,990	1,793,871	1,044,789
Optometry	16,635,931	852,333	496,416
Eye Appliances	22,648,262	1,160,372	675,823
Chiropractors	2,258,025	115,689	67,379
Psychologists	8,719,241	446,726	260,182
Podiatrists	12,868,022	659,286	383,981
Physical Therapy	775,346	39,724	23,136
Speech Therapists/Audiologists	3,482,255	178,412	103,910
Prosthetic/Orthotic Appliances	5,957,921	305,251	177,784
Nurse Anesthetists	217,641	11,151	6,494
Community Rehab Center	544,102	27,877	16,236
Short-Doyle Agency	3,754,307	192,350	112,028
Organized Outpt. Clinic	22,961,121	1,176,401	685,159
Independent Rehab Center	190,436	9,757	5,683
County Hospital Outpatient	86,314,300	3,397,000	2,147,400
Community Hospital Outpatient	150,288,900	5,493,200	3,332,000
Drugs	182,186,500	3,867,400	2,106,900
Skilled Nursing Facilities	693,622,600	33,859,900	17,118,400
Intermediate Care Facilities	30,610,300	1,562,900	789,700
Home Health Agency	3,589,600	134,700	76,800
Medical Transportation:			
Ambulance Transportation	19,023,109	995,352	562,130
Other Med. Transp.	9,369,591	490,248	276,870
Other Services:			
Portable X-Ray	2,574,460	119,112	66,601
Hearing Aids	8,044,817	372,208	208,119
Out-of-State	6,455,317	298,667	166,999
Occupational Therapy	29,490	1,364	763
Durable Medical Equip.	10,200,522	471,947	263,887
Other	2,185,194	101,102	56,531
Dental (CDS)	130,038,500	7,413,800	4,063,900
Short-Doyle	98,368,400	5,568,000	3,352,600
Redwood Health Foundation	32,224,200	1,289,200	644,600
Prepaid Health Plans	74,162,200	2,979,900	1,489,900
Total		$106,452,100	$59,186,400

The process for consideration of Medi-Cal provider rate increases should be modified for the 1979–80 budget hearings. We recommend that the department submit a detailed proposal for Medi-Cal provider rate increases by April 1, 1979. The list should establish priorities, and should be accompanied by a written statement supporting the proposal. Providing this information by April 1, 1979 should give the Legislature a reasonable opportunity to review the department's proposal, and should also provide a better basis for legislative action.

Obstetric Rate Increases

We recommend the department proceed to implement an obstetric fee increase and an abortion fee decrease.

During the 1978 budget hearing process, the department proposed that the physician's fee for performing an abortion be reduced from $175.50 to $99.82. The funds saved from the abortions fee reduction would have been used to increase the physician fee of $150 to $188 for the delivery of a child and the global fee of $300 to $376 for the obstetric care of a pregnant woman.

We recommended approval of the obstetric fee increases because of the apparent difficulty which many Medi-Cal recipients have in obtaining physicians to provide obstetric services at the current Medi-Cal rates. We also supported the concept that the obstetrical fee increase be funded from reductions in abortions fees. A reduction in these fees is warranted by the findings of the 1974 Relative Value Study, published by the California Medical Association, which concluded that an abortion is not as complicated a procedure as it was when the 1969 Relative Value Study (on which the current fees are based) was published. Therefore, its unit value has declined relative to other procedures.

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Nursing Home Rate Increases

We recommend that the department submit a report to the Legislature by March 1, 1979 on a state plan for nursing home rate increases.

The state recently submitted a plan to the federal government which would have made some important changes in the way nursing home rates in California are developed. The federal government has informally notified the department that the plan is unacceptable in its present form, and the department has decided to withdraw its proposed plan. Another plan is currently under consideration. The major features of the plan that was withdrawn by the department are outlined below:

1. California currently makes no distinctions in rates, based on region. The proposal would create four regions with different rates: the Bay Area, the Los Angeles area, San Diego County and the balance of the state. Rates in the Bay Area would increase, while those in San Diego County would decrease. Rates paid in the Los Angeles area and in the balance of the state would decrease slightly.

2. Currently, rates are based on the number of beds in a facility. Facilities with 1–59 beds receive rates that are higher than facilities with 60 to 99 beds, while facilities with 100 or more beds receive less than the smaller facilities. The plan would provide the same rate to the 60 to 99 bed category as it does the 100 and above facility.

3. California currently makes no distinction in rates paid to profit and nonprofit facilities. The recently-submitted state plan would have created such a distinction. Nonprofit facilities would have received rate increases while the profit facilities would have experienced minor decreases in the current year. The federal government does not approve of this portion of the plan.

4. Currently, the state sets rates based on the average costs of all nursing homes. This has the effect of reimbursing 50 percent of the facilities in amounts equal to or exceeding their operating costs. The other 50 percent of the facilities have to rely on additional sources of income, such as higher private pay rates and church contributions, to fully cover their operating costs. The state plan would have increased the rates to the point where 55 percent of the facilities would be fully reimbursed in amounts equal to or exceeding their operating costs.

The nursing home state plan raises two key issues for the Legislature. First, does the Legislature want nursing home reimbursements to be determined on a formula basis over which the Legislature has little control? Second, if there is to be a state plan, does the Legislature wish to have an opportunity to review and approve its major features?

We recommend that by March 1, 1979, the department submit a report to the Legislature covering the following points related to the state plan and nursing home rate increases:

1. A description of the major features of the proposed state plan.
2. An explanation of the advantages of the proposed changes in rate categories.
3. A description of which facility types will receive increases or decreases under the plan and the magnitude of the rate changes.
4. A cost estimate for the current and budget year.

New Study

In September 1978, we requested that the department conduct a study of wages paid in nursing homes to determine what impact the rate increases of Chapter 1207 Statutes of 1976 (AB 4242), Chapter 19 Statutes of 1978 (AB 1426) and Chapter 1202 Statutes of 1976 (AB 3619) have had on employees in the industry. This study was conducted with the assistance and cooperation of the California Association of Health Facilities. Due to the department's time and staff constraints, data from only 393 facilities could be used to prepare the information presented below.

Hourly Wages Paid in Nursing Homes

Table 24 shows the extent to which the nursing home industry is still a minimum wage industry. Currently the federal minimum wage is $2.90 an hour. Most of the recent rate increases have been targeted by legislation in such a way as to improve wages for existing employees. This was done with the expectation that if nursing homes paid higher wages, they would become more competitive with other industries that also employ large numbers of persons at or near minimum wage. Thus, it was anticipated that this would reduce staff turnover.

Table 24

Nursing Home Hourly Wages
October 1976 Compared to September 1978

	October	September	Increase	
Classification	*1976*	*1978*	*Amount*	*Percent*
Director of Nurses	$7.15	$8.36	$1.21	17%
Registered Nurse	5.79	6.67	.88	15%
Licensed Vocational Nurse	4.55	5.29	.74	16%
Nurses Aide	2.75	3.22	.47	17%
Cooks	3.46	3.87	.41	12%
Kitchen Helpers	2.68	3.13	.45	17%
Housekeepers	2.81	3.20	.39	14%
Laundry Workers	2.77	3.21	.44	16%
Maintenance and Repair Workers	3.43	4.23	.80	23%

Source: Rate Development Branch, Department of Health Services

Staff Turnover

One of the arguments for additional nursing home rate increases was that the increases would improve the quality of service by reducing staff turnover in nursing homes. It was argued that when staff turnover is reduced, employees have more opportunity to acquire the skills needed to become more proficient in performing their tasks.

The data from the study shows that there have been some increases in the average length of employment for nurses aides and other licensed staff. Between September 1977 and September 1978 the percent of all nurses aides employed who had worked for one year or more increased from 36.9 percent to 40.6 percent. The percent who had worked for more than six months but less than one year also increased from 13.5 percent to 15.5 percent, and the percentage of nurses aides with six months or less experience decreased from 49.6 percent of all nurses aides to 43.9 percent. The data for licensed vocational nurses and registered nurses presented in Table 25 show similar although less significant shifts, with those having less than six months employment decreasing from 34.1 percent to 31 percent of the licensed staff.

Table 25
Staff Turnover Trends for Nurses Aides and Other Licensed Staff

	Nurses Aides			*Other Licensed Staff (LVNs and RNs)*		
Length of Employment	*September 1977*	*September 1978*	*Change*	*September 1977*	*September 1978*	*Change*
Less than six months	49.6%	43.9%	−5.7%	34.2%	31.0%	−3.1%
Six months to one year	13.5	15.5	+2.0	16.2	16.9	+.7
One year and over	36.9	40.6	+3.7	49.7	52.1	+2.4
	100.0%	100.0%		100.0%	100.0%	

New Federal Minimum Wage

Effective January 1, 1979, the federal minimum wage increased by 25 cents from $2.65 to $2.90 an hour. The cost to the industry of increasing all employees' salaries to at least $2.90 an hour should be minimal because all employees should have been receiving at least $2.65 plus the hourly increase provided by AB 1426 which averaged 38 cents an hour ($2.65 + 38 cents = $3.03).

Section (g) of AB 1426 required nursing homes to certify that, as of July

1, 1978, they paid their employees at least the federal minimum wage ($2.65/hour) plus the average hourly wage increase funded by the bill. Employees with less than three months experience could be paid only one-half of the hourly increase. Nursing homes were also to certify that they raised the pay of trained and certified nurses aides by 20 cents an hour plus the hourly wage increases of AB 1426.

The Intent of AB 1426

The nursing home industry interprets AB 1426 to mean that the state is obligated to furnish funds for a rate increase at least sufficient to keep the minimum wage in the industry at the new federal minimum wage plus the 38 cents an hour average increase provided by AB 1426. The department estimates that it would cost $8,884,446 ($4,486,646 General Fund) to bring all employees up to a minimum wage of approximately $3.28 an hour.

The language of AB 1426 does not specifically require the state to increase its rates as a result of the new federal minimum wage. It requires nursing homes only to certify that they paid certain wages as of July 1, 1978. In addition, the act does not require the industry to pass on any further rate increases which might be granted to employees who are at or near the minimum wage.

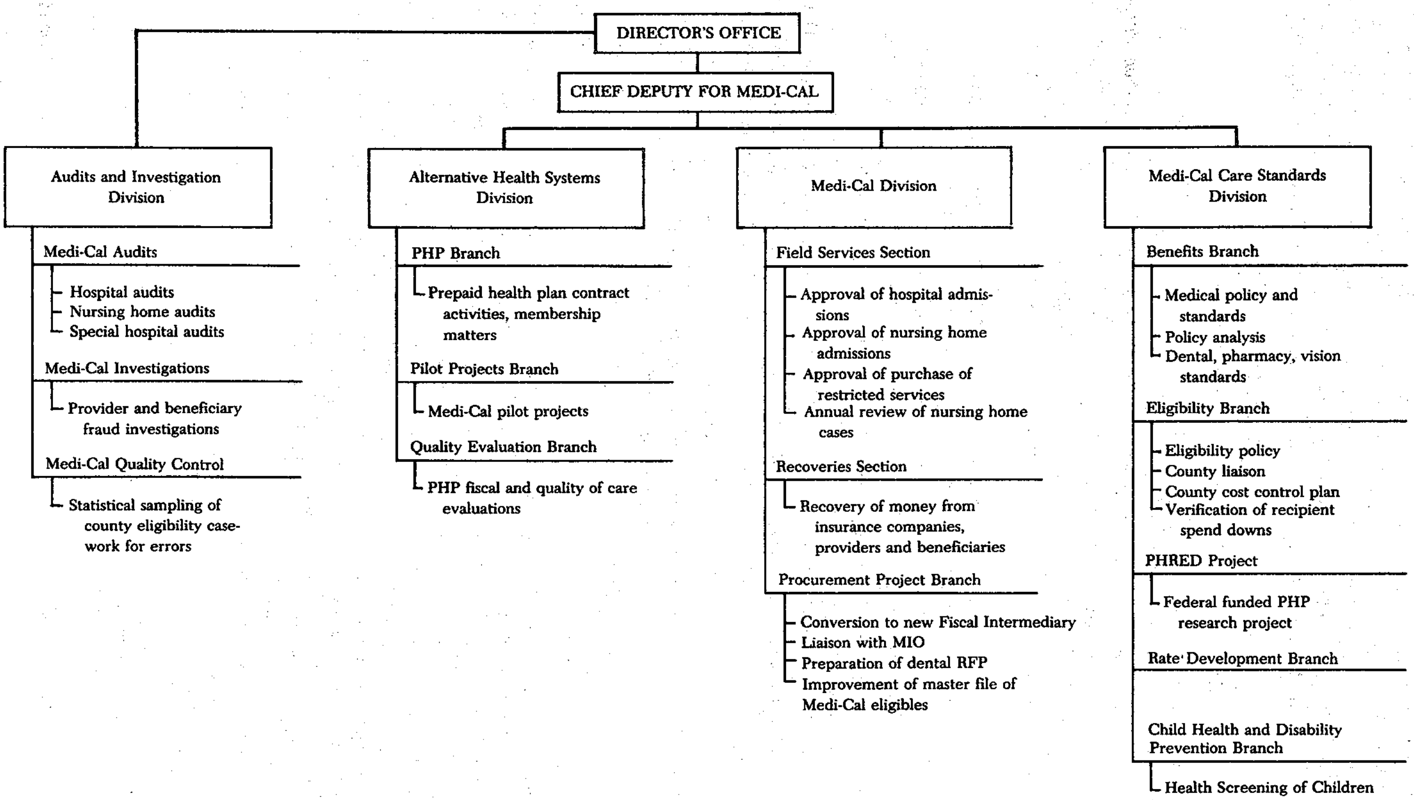
It should be noted that as a result of the passage of Proposition 13, nursing homes received a property tax reduction. This property tax reduction is the equivalent of a 45 cent rate increase according to the industry. The department estimates that it would require a 36 cent rate increase to bring all employees up to a minimum wage of approximately $3.28 (federal minimum wage plus 38 cents an hour on the average).

F. Departmental Medi-Cal Program Operations

Medi-Cal Reorganization

The Medi-Cal program is administered by the following four divisions: Audits and Investigations, Medical Care Standards, Alternative Health Systems and Medi-Cal. Most of the policy development functions are located in the Medical Care Standards Division while most daily operations functions are in the Medi-Cal Division. The Alternative Health Systems Division is responsible for prepaid health plans and pilot projects. The Audits and Investigations Division is responsible for audits and investigations. Chart 2 presents the organization for the Medi-Cal program and shows the major Medi-Cal functions by division.

Chart 2
Current Distribution of Medi-Cal Functions in the Four Medi-Cal Divisions



Medi-Cal program operations within the department will account for approximately 45 percent of the department's estimated operating cost of $118 million in 1979–80. Table 26 shows the number of positions currently authorized for the four divisions and the proposed staffing for the budget year. In total, the budget proposes that the Medi-Cal program operate with 33.1 additional positions in 1979–80, an increase of 2.8 percent.

Table 26
Medi-Cal Program Positions
By Division
(Excluding Administrative Overhead)

Division	*1978–79*	*1979–80*	*Position Change*	*Percentage Change*
Medical Care Standards	187.9	189.7	1.8	1.0%
Medi-Cal	590.5	618.6	28.1	4.8
Alternative Health Systems	69.5	69.0	−.5	−.7
Audits and Investigations	345.2	348.9	3.7	1.0
	1,193.1	1,226.2	33.1	2.8%

The budget proposes a total of $62,606,095 ($27,930,507 General Fund) for the department's Medi-Cal program operations for 1979–80. This is an increase of $6,462,657 ($2,077,238 General Fund) over the estimated current-year expenditures. Total funds available for the Medi-Cal operation as shown in the budget increase by 11.5 percent, while the General Fund cost increases by 8 percent. Table 27 shows the administrative costs of the major Medi-Cal related activities carried out by the department.

Table 27
Medi-Cal Program Activities and Estimated
Administrative Expenditures

Medi-Cal Administrative Activities	*Estimated 1978–79 Cost*
1. Audits of Hospitals and Nursing Homes	$6,350,000
2. Audit Appeals Activities	868,000
3. Development of Providers' Rates and Fees	473,000
4. Development and Monitoring of Prepaid Health Plans	1,489,000
5. Medi-Cal Monthly Card Issuance	4,147,000
6. Development and Monitoring of Pilot Projects	701,000
7. Recovery of Funds from Insurance Companies and Other Liable Parties	4,043,000
8. Child Health Disability Prevention Screening Activities	2,562,000
9. Monitoring Activities Related to Payment of Claims to Providers	1,671,000
10. Transition to New Fiscal Intermediary for Claims Payment	814,000
11. Monitoring and Regulating County Eligibility Determination Activities (including quality control-case review activities)	3,506,000
12. Prior authorizations of restricted Medi-Cal services, including review of admissions of patients to hospitals and nursing homes	14,154,000
13. Development of Medical Policy and Program Benefits	2,078,000
14. Activities to Prevent Provider Billing Abuses and Delivery of Unnecessary Services	3,471,000
15. Anti-Fraud Investigations	1,523,000
16. Medi-Cal Data Processing	2,300,000
17. Licensing of Nursing Homes, Hospitals and Other Facilities	5,115,000
18. Other Activities	878,438
Total Department of Health Services Medi-Cal Expenditures	$56,143,438

Creation of the Medi-Cal Audits and Investigations Division

The Audits and Investigations Division was created by relocating sections of the Audits, Audit Appeals and Recoveries Branch. The audit appeals functions were transferred to the legal office and the recovery functions were transferred to the new Medi-Cal (operations) Division. What remained was the audits section. The investigations section and the surveillance and utilization review sections were then added to the audits section to form the Audits and Investigations Division. The head of the Audits and Investigations Division reports to the director rather than to the chief deputy for Medi-Cal. This direct reporting is intended to protect the independence of the auditors and investigators from influence by other Medi-Cal program staff.

Development of a Medi-Cal Data Base

We recommend the department contract with an outside consultant to expedite the development of a data retrieval and data management system for the Medi-Cal program.

The department does not have the capability to routinely extract essential information about the Medi-Cal program from available data sources. Consequently the department often does not have enough fiscal and program data to make reliable estimates of the cost of proposed legislation, federal regulations or court rulings. In addition, the department cannot always monitor available data to identify potential problem areas and trends. Nor can the department routinely or cheaply retrieve random information which decision makers need in order to be able to develop rational and informed policy on particular issues.

The following are several reasons why the department has substantial difficulty in acquiring data for decision making purposes.

1. The enormous volume of Medi-Cal data contained on computer tapes has never been consolidated into manageable size and format.
2. The department has never had a data processing system which allowed analysts to selectively retrieve information needed for a given project or a particular policy issue.
3. Over the years, no one section or unit in the department has been responsible for the extraction of Medi-Cal program management data, and consequently no one unit has been responsible for formulating a solution to data collection problems.
4. The data processing branch has not had staff resources to devote to management information needs. This has been especially true in the last year when the branch lost personnel to the special unit established to handle the conversion to the new fiscal intermediary and lost staff to outside recruiting activities. Of even more importance, management in the department has never placed the development of a management information retrieval system high on the priority list of the data processing branch.

We have continually expressed concern about the lack of meaningful Medi-Cal program data and the need to develop a system to retrieve information from the voluminous data sources available. Virtually everyone agrees that something should be done to improve the situation, but very little progress has been made.

We suggest the following general approach to the problem. First, the department should expedite the process of producing summary and random sample tapes which are small enough in volume to be economically accessible. Second, the department should acquire a very simple user oriented software system which would allow analysts who are not trained programmers to do simple applications without assistance from the data processing branch. Individuals who routinely work on Medi-Cal data analysis in the various program units of the department should be trained to do simple programming and taught how to create their own data files. We suggest that the analysts who receive the training have easy access to computer terminals so that they could use their data processing skills on a routine basis.

In order to expedite the development of an effective data retrieval and data management system for the Medi-Cal program, we recommend that the department contract with an outside consultant to prepare a report on how best to proceed with this project.

Department of Health Services

FORENSIC ALCOHOL ANALYSIS AND MEDICAL EFFECTS OF AIR POLLUTION

Item 259 from the Motor Vehicle Account, State Transportation Fund — Budget p. 664

Requested 1979–80	$311,545
Estimated 1978–79	279,459
Actual 1977–78	$306,683
Requested increase $32,086 (11.5 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Withhold recommendation, pending receipt of further equipment information.	652

GENERAL PROGRAM STATEMENT

Forensic Alcohol Analysis Regulation

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 other violations, in accordance with Sections 436.5–436.63 of the Health and Safety Code. There are presently 65 licensed laboratories. Four professional, two laboratory assistants and two clerical positions are assigned to this program.

FORENSIC ALCOHOL ANALYSIS AND MEDICAL EFFECTS OF AIR POLLUTION—Continued

Medical Effects of Air Pollution

The Epidemiology Studies Laboratory Section is responsible for determining the medical effects of air pollution and recommending air quality standards to the Air Resources Board in accordance with Section 425 of the Health and Safety Code. Three professional and one clerical positions are assigned to this program.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending receipt of further information which clarifies the need for new equipment.

This item appropriates $311,545 from the Motor Vehicle Account in the State Transportation Fund, a $32,086 or 11.5 percent increase over current year estimated expenditures for support of the forensic alcoholic regulation and air pollution medical effects programs. The department states that the increased costs for the item result from *higher-than-average expenditures* for laboratory equipment for the forensic alcohol analysis program, and from *savings* which are being experienced in the current year which are not anticipated for the budget year. We have not, however, been given sufficient information to justify the need for the equipment, and are withholding recommendation pending receipt of additional data.

Department of Health Services
SPECIAL PROJECT ACTIVITIES

Item 260 from Federal Funds — Budget p. 660

Requested 1979–80	$60,412,676
Estimated 1978–79	48,140,652
Actual 1977–78	37,445,214
Requested increase $12,272,024 (25.5 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This program, which is entirely federally funded, supports public health activities in the areas of public health services, demonstration and research projects and training. The projects are located within various sections of the Department of Health Services. The largest project is the Special Supplemental Food Program for Women, Infants, and Children (WIC), which utilizes approximately 65 percent of the available funds. The WIC program provides food supplements to nutritionally at risk infants and children and lactating or pregnant women.

The budget proposes an expenditure of $60,412,676, which is $12,272,024 or 25.5 percent above the estimated current year expenditures. The major increases in the budget year are anticipated in the public health services and demonstration projects portion of the program. In prior years, funding for this program has been included in the department's main support item.

Department of Health Services

ASSISTANCE TO CITIES, COUNTIES AND LOCAL AGENCIES FOR HEALTH SERVICES

Item 266 from the General Fund | Budget p. 665

Requested 1979–80	$38,767,233
Estimated 1978–79	48,287,038
Actual 1977–78	42,929,126
Requested decrease $9,519,805 (19.7 percent)	
Total recommended reduction	$2,301

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
	Budget Bill Appropriation	General	$38,684,119
	Chapter 1212, Statutes of 1976 (Hemophilia)	General	50,000
	Chapter 215, Statutes of 1977 (Genetic Counselors)	General	24,864
	Chapter 1261, Statutes of 1978 (Emergency Medical Care)	General	8,250
	Total		$38,767,233

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Local Health Agencies. Recommend that $2,301 in Item 266 for infant medical dispatch centers be deleted.* 655
2. *Genetically Handicapped Persons Program.* Recommend that the departments of Health Services and Finance explain to the fiscal subcommittees during budget hearings why the Genetically Handicapped Persons program has not established a uniform formula for determination of client financial liability and a mechanism for collection of repayment liabilities as required by the Health and Safety Code. 657

ANALYSIS AND RECOMMENDATIONS

This item proposes General Fund expenditures by the Department of Health Services of $38,767,233, which is $9,519,805 or 19.7 percent less than expenditures in the current year. This item also contains $17,271,617 in federal funds. The requested funds include the General Fund support for the following city, county and local agency health services programs: (a) tuberculosis control, (b) assistance to local health departments, (c) special medical care for renal dialysis and genetically handicapped persons, (d) genetic disease prevention, (e) Tay Sachs disease, (f) immunization assistance, (g) Indian health, (h) family planning, (i) maternal and child

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

health, (j) rural health, and (k) emergency medical care delivery systems.

The decrease in proposed expenditures overstates the extent of program reductions provided for in the budget. This is because approximately $6.9 million in 1978–79 funds for Child Health and Disability Prevention Local Assistance are requested in the budget year in a separate local assistance item. Other major differences between the current and budget year amounts include General Fund loans of approximately $1.6 million for the Genetic Disease Testing Fund during the current year which are not requested for the budget year, and $1.5 million for the High Risk Pregnant Women Project which terminates this year.

Funds appropriated in this item are for local assistance only. They comprise a small percentage of the total expenditures at the local level for health care services. A discussion of county costs, public health programs, and inpatient and outpatient services at the county hospitals can be found in Item 257.

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

Table 1
Programs Funded through Item 266
Fiscal Year 1979–80

Program	*General Fund*	*Funds Available from Previous Legislation*	*Federal Funds*	*Total*
a. Tuberculosis Control	$364,922	—	—	$364,922
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	704,241	—	—	704,241
4. Oakland Initiative	795,000	—	750,000 [a]	1,545,000
5. Infant Medical Dispatch Centers	2,301	—	—	2,301
Subtotal	($7,527,854)	—	($3,847,776)	($11,375,630)
c. Special Medical Care				
1. Renal Dialysis	716,994	—	—	716,994
2. Genetically Handicapped Persons	1,598,041	$50,000	—	1,648,041
Subtotal	($2,315,035)	($50,000)	—	($2,365,035)
d. Genetic Disease Prevention				
1. Sickle Cell Anemia	435,372	—	—	435,372
2. Amniocentesis	530,000	—	—	530,000
3. Genetic Counseling	—	24,864	—	24,864
Subtotal	($965,372)	($24,864)	—	($990,236)
e. Tay Sachs Disease	393,260	—	—	393,260
f. Immunization Assistance	1,186,519	50,000	—	1,236,519
g. Indian Health	2,445,073	—	—	2,445,073
h. Family Planning	20,629,236	—	$4,000,000	24,629,236
i. Maternal and Child Health	—	—	9,423,841	9,423,841
j. Rural Health	2,856,848	—	—	2,856,848

k. Emergency Medical Care Delivery Systems	—	8,250	—	8,250
Total	$38,684,119	$133,114	$17,271,617 [a]	$56,088,850
Reimbursements	—	—	−500,000	−500,000
Net Total	$38,684,119	$133,114	$16,771,617	$55,588,850

[a] Includes $500,000 in reimbursements. Funds are Federal Public Works Employment Act, Title II.

Local Health Programs

A. Tuberculosis Control

We recommend approval.

This subitem proposes $364,922 from the General Fund for distribution to counties for tuberculosis care and control. This is $20,656 or 6 percent more than estimated expenditures during the current year.

Most tuberculosis care and control is financed and carried out at the county level. In fact data obtained from the counties indicate that they spend approximately nine times the state contribution for TB control. Most of the state funds are channeled to high priority counties, with some funds used to provide special training to local public health personnel.

Whereas the incidence of tuberculosis has declined nationwide, it has held steady in California with 3,465 reported cases in 1977, 3,620 in 1976, and 3,618 in 1975. The new cases are often found among new residents, particularly immigrants.

B. Local Health Agencies

We recommend that $2,301 for Infant Medical Dispatch Centers be deleted. We recommend approval of the other proposed expenditure items.

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 6.0 percent more than estimated expenditures during the current year. Funds are distributed in the following manner:

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

(b) The balance is distributed 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 the amount provided.

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 257.

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.

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

3. Public Health Nursing to the Aged.

The budget proposes $704,241 from the General Fund for county projects which provide public health nursing services to the aged. This is $39,863 or 6 percent above estimated expenditures in the current year. There are 13 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.

The program in 1977–78 (the most recent year for which data are available) served approximately 38,000 older adults. Program data show that over 4,400 cases of out-of-control hypertension were found, with at least 3,700 brought under control. One hundred and fifty two cases of glaucoma were diagnosed and brought under medical care, avoiding potential blindness.

4. Oakland Perinatal Initiative.

The budget proposes $795,000 from the General Fund (redirected Family Planning local assistance funds), $250,000 in federal Maternal and Child Health Title II funds, and $500,000 in federal Public Works Employment Act Title II funds for a pilot project to reduce the infant mortality rate in Oakland. The project was initiated during the current year under authority contained in Section 28 of the Budget Act of 1978. Current year funds include $750,000 in family planning funds, federal funds equivalent to those proposed for 1979–80, and approximately $80,000 in Child Health and Disability Prevention (CHDP) local assistance funds. We understand that the CHDP funds will help finance the project again this year, even though this is not indicated in the Governor's Budget.

This project was initiated in response to a high infant mortality rate found in sections of Oakland. It will attempt to reduce this mortality rate by (1) providing prenatal care and deliveries to an estimated 700 women, (2) providing infant care to the infants delivered, (3) educating junior high school students in family planning, (4) identifying all pregnant women in the target area, and providing various educational services, (5) increasing utilization of family planning services currently available, (6) using billboards, radio, television, and other public media to inform and educate people in the target area, and (7) evaluating current community needs and the effectiveness of the project.

5. Infant Medical Dispatch Centers.

We recommend deletion of $2,301 in General Fund money.

This subitem proposes $2,301 from the General Fund for costs incurred in connection with two infant medical dispatch centers. These centers provide assistance to physicians attempting to secure an intensive care nursery hospital bed for high risk infants. Neither the Department of Health Services nor the Department of Finance could provide any explanation of why these funds were requested or what they would be used for. Moreover, this program does not have authorization for continuance after July 1, 1979. In the absence of any information on these funds, we recommend they be deleted.

C. Special Medical Care

This subitem has two parts:

1. Renal Dialysis Centers.

We recommend approval.

The budget proposes $716,994 from the General Fund for financial assistance to four adult and three pediatric renal dialysis centers. This is a decrease of $159,415 or 18.2 percent from estimated expenditures during the current year. The department intends to redirect these funds for older adult health care.

In our analysis of the 1978–79 budget, we recommended that the department review the need for support of adult renal dialysis regional centers and report to the fiscal subcommittees by June 30, 1978. The report submitted by the department indicated that these centers and related activities would continue to require the approximate level of support budgeted for the current year. Subsequent analyses by the department, however, concluded that approximately $200,000 of these funds could be used more effectively for public health services for older adults. The renal dialysis budget has been reduced by $200,000, and $135,148 of that amount has been redirected to services for older adults in Item 257.

We agree with the department's decision to reduce the level of funding for the dialysis program.

2. Genetically Handicapped Persons Program.

We recommend that the Departments of Health Services and Finance explain to the fiscal subcommittees during budget hearings why a client financial liability formula and repayment collection mechanism has not been established for the Genetically Handicapped Persons Program, as required by law.

We further recommend that a formula and collection mechanism be established that is uniform with revised formulas and repayment mechanisms for the California Children's Services. The Simplified Repayment System proposal should be reviewed as a prototype for these purposes.

The budget proposes $1,598,041 from the General Fund and an additional $50,000 (General Fund) from Chapter 1212, Statutes of 1976 (Hemophilia), for the Genetically Handicapped Persons program. This is $90,455 or 6.0 percent more than estimated expenditures for the current year.

This program was established by Chapter 1212, Statutes of 1976, to provide care to individuals with hemophilia, cystic fibrosis, or sickle cell anemia. It primarily provides case management services and utilizes other sources of financing medical services, but the program also helps in paying for needed medical care.

Chapter 1212 requires the department to develop by January 30, 1977, uniform standards of financial eligibility for treatment services, which would include a uniform formula for the determination of repayment liability for services rendered through the program. The Departments of Health Services and Finance have been unable to agree on a repayment mechanism. Thus, no mechanism has yet been established.

We recommend that the Department of Health Services and the Department of Finance explain to the fiscal subcommittees during budget hearings why the Genetically Handicapped Persons program has not been

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

brought into compliance with law. We furthermore recommend that any formula for the determination of repayment liabilities be uniform with revised repayment schedules and procedures in the California Children's Services program (discussed in Item 267). The Simplified Repayment System proposal which is in draft form could serve as a prototype for the development of such a mechanism, and we recommend that it be reviewed with this in mind.

D. Genetic Disease Prevention

We recommend approval.

This subitem has three 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 estimated expenditures 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 $530,000, which is $30,000 or 6 percent more than estimated expenditures 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. This program has two major benefits. First, detection of genetic disorders in the fetus permits early termination of these pregnancies, thereby avoiding future suffering and high medical and care expenditures. Second, by allowing the early determination that the fetus is not defective, high risk pregnant women may experience normal birth.

3. *Genetic Counseling.* The budget proposes $24,864 for genetic counseling, which is $49,727 less than estimated expenditures for the current year. These funds are for departmental support. The program, funded from Chapter 215, Statutes of 1977, requires the Department of Health Services 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. This program will be terminated January 1, 1980.

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 $22,260 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 $1,186,519 from the General Fund for the Department of Health Services' immunization program. This is a $67,161 or 6.0 percent increase over estimated current year expenditures. The funds are used to provide immunization supplies to local agencies for influenza vaccination of older adults and for childhood disease immunization.

The Immunization Adverse Reaction Fund also provides $50,000 to fund the costs of potential adverse reactions. These funds may not be used for other program activities.

G. Indian Health Services

We recommend approval.

The budget proposes an expenditure of $2,445,073 for financial training and technical assistance to nine urban and 16 rural Indian health projects. This amount is $138,400 or 6.0 percent more than estimated expenditures during the current fiscal year.

H. Family Planning

We recommend approval.

The budget proposes $20,629,236 from the General Fund and $4,000,000 in federal funds for subventions to local agencies to provide family planning services. This represents a reduction of $72,637 or 0.3 percent from estimated current year expenditures. Estimated current year expenditures are $750,000 less than the amount appropriated due to the redirection of funds to the previously discussed Oakland Perinatal project. The reduction in General Fund expenditures in 1979–80 stems from the transfer of funds to departmental support to permanently establish two positions to provide staff support for the sterilization program.

I. Maternal and Child Health

We recommend approval.

This subitem contains $9,423,841 in federal Title V Maternal and Child Health Funds, which will be used to fund contracts with local agencies for projects in family planning, maternity and infant care, children and youth and intensive newborn care. This is $390,023, or 4.0 percent, less than estimated current year expenditures. The Oakland Perinatal Project, however, is budgeted for $250,000 in Title V funds, so total Title V local assistance funding in 1979–80 for California would be $140,023 less than the current year. The Maternal and Child Health Branch intends to emphasize adolescent and perinatal care in reviewing and approving projects for the budget year.

J. Rural Health

We recommend approval.

The budget proposes $2,856,848 for rural health local assistance, which is $128,562 or 4.3 percent less than estimated expenditures in the current year for both the rural health local assistance and rural health services development projects. The two categories of assistance are not separately identified this year. The reduction is due to the transfer of funds from this local assistance item to Item 257, Department of Health Services Support,

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

to establish eight permanent positions. These positions had previously been funded through the local assistance item.

The Rural Health program utilizes most funds in support of primary care health clinics in medically underserved areas. Other elements of the program include a California Health Services Corps, which provides local consultation statewide as well as direct provision of services and a coordination of state efforts in rural health.

K. Emergency Medical Care Delivery System

We recommend approval.

Chapter 1261, Statutes of 1978, appropriated $170,000 to the department from the General Fund (without regard to fiscal year) for contracting with the Northern California Emergency Medical Care Council for emergency medical services in eight rural counties. During the current year, $161,750 will be expended. The budget proposes to make available the balance of the appropriation, $8,250, for contractual services during the 1979–80 fiscal year.

Department of Health Services

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

Item 267 from the General Fund — Budget p. 648

Requested 1979–80	$26,944,825
Estimated 1978–79	26,792,767
Actual 1977–78	26,461,620
Requested increase $152,058 (0.6 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *California Children's Services Repayment System.* Recommend that the California Children's Service revise its client liability repayment program, and that any new system be uniform, with repayment procedures to be developed for the Genetically Handicapped Persons' program. — 661

GENERAL PROGRAM STATEMENT

The California Children's 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 Services. The department 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. These are considered educational programs and do not make family income eligibility determinations or collect any fees.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $26,944,825 from the General Fund for assistance to local CCS programs, an increase of $152,058 or 0.6 percent over estimated expenditures for the current year. The proposed budget provides a 6 percent cost-of-living increase for administration at the county level. In addition to the funds in this item, the budget proposes a 6 percent provider rate increase of $1,455,508 in Item 265. Provider rates for the CCS program are directly tied to the Medi-Cal rate structure. Total funds proposed for CCS local assistance for the budget year would be $28,400,333 from the General Fund. The budget also proposes $1,960,585 for departmental support of this program which is $57,607 or 3 percent above estimated current year expenditures.

Table 1 shows the total funding of the CCS program by source of funds.

Table 1
California Children's Services (Crippled Children)
Proposed Source of Funds

		1979-80	
	1978-79	*Amount*	*Percent*
Family Repayment	$965,000	$965,000	2.1%
County Funds	9,651,832	10,137,001	22.0
Federal Funds	4,704,700	4,704,700	10.2
General Fund	28,695,745	30,360,918	65.7
Item 267	(26,792,767)	(26,944,825)	
Item 257, Department of Health Services Support	(1,902,978)	(1,960,585)	
Item 265, Price and Provider Rate Increase	(—)	(1,455,508)	
Total	$44,017,277	$46,167,619	100.0%

Table 2 details the proposed expenditure for the California Children's Services program for the current and the budget year.

Table 2
California Children's Services
Proposed Expenditures by Program

	1978-79	*1979-80*
Diagnosis	$1,865,041	$1,956,545
Treatment	28,417,521	29,811,817
Therapy	9,272,325	9,727,252
County Administration	2,534,293	2,686,351
State Administration	1,902,978	1,960,585
Noncounty Residents	25,069	25,069
Totals	$44,017,277	$46,167,619

ASSISTANCE TO CITIES, COUNTIES, AND LOCAL, PUBLIC AND PRIVATE NON-PROFIT AGENCIES FOR CALIFORNIA CHILDREN'S SERVICES (CRIPPLED CHILDREN)—Continued

Client Repayment System

We recommend that the California Children's Services revise its client liability repayment program. We recommend that any new system be uniform with repayment procedures to be developed for the Genetically Handicapped Persons' program.

The CCS program has a financial eligibility and repayment system for the services it provides. It requires clients to pay their share of the cost of medical services based on a family's ability to pay. Data from the department, however, indicate that the CCS activities related to eligibility determination and fee collection cost more to administer than they generate in revenue. These annual costs are estimated at over $1.4 million, compared to less than $1 million in annual revenues.

Repayment systems are also a problem in other programs. As discussed within Item 266, the Genetically Handicapped Persons' program does not have any repayment system, contrary to what is mandated in the Health and Safety Code.

We recommend that the CCS program revise its current repayment system, and that any new system implemented be uniform with new and revised systems in the Genetically Handicapped Persons' program. We further recommend that the Simplified Repayment System presently in draft form in the department be reviewed as a possible prototype.

Department of Health Services
LEGISLATIVE MANDATES

Item 268 from the General Fund — Budget p. 659

Requested 1979–80	$169,488
Estimated 1978–79	169,488
Actual 1977–78	N/A
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item proposes a General Fund appropriation of $169,488 to the State Controller to reimburse local government agencies for health program costs mandated by state law. This amount is the same as provided for the current year. These reimbursements are required by Section 2231 of the Revenue and Taxation Code.

Personnnel within the Office of the State Controller indicate that the appropriation for the current year may not be adequate to fund claims from local governments. The Controller's estimate of claims for the current year is $309,548. To the extent that the current year funding may be inadequate, the funds proposed for the budget year may also be insufficient.

The mandating legislation and the estimated costs contained in the Governor's Budget for both the current and the budget year are:

1. Chapter 554, 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 659 of the Governor's Budget.

Health and Welfare Agency

DEPARTMENT OF DEVELOPMENTAL SERVICES

Items 269–272 from the General Fund Budget p. 693

Requested 1979–80	$380,490,522
Estimated 1978–79	365,665,234
Actual 1977–78	N/A
Requested increase $14,825,288 (4.1 percent)	
Total recommended reduction	$5,718,010

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
269	Department Support	General	$9,323,299
270	Hospital Support (Transfers and Reimbursements)	General	—
271	Local Assistance	General	371,043,785
272	Legislative Mandates	General	123,438
	Total		$380,490,522

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *Developmental Disabilities Prevention Project. Reduce Item 271(e) by $820,031.* Recommend deletion of additional funds proposed for Developmental Disabilities Prevention Program. 671
2. Population. Recommend control language requiring Department of Finance and legislative review of state hospital population projections. 677
3. *Hospital Population Projections. Reduce Item 271(a) by $3.6 million.* Recommend reduction to reflect an additional 250 community placements. 680
4. *Medical Assistance Units.* Recommend elimination of 680

123.4 positions for Medical Assistance Units in the state hospitals. A reduction of $1,399,806 in Item 261, Medi-Cal, results.

5. *Psychiatric Technical Apprenticeship Program. Reduce Item 271 (a) by $500,000.* Recommend a reduction to eliminate new classes proposed for a psychiatric technician apprenticeship program at Camarillo and Fairview State Hospitals. 681
6. *Hospital Recruitment. Reduce Item 269 by $92,669.* Recommend reduction of two positions for continuation of the hospital recruitment effort. 681
7. *Planning and Program Evaluation. Reduce Item 269 by $400,463.* Recommend reduction of 10 proposed new positions in the planning and evaluation division. 682
8. *State Hospital Redirected Positions. Reduce Item 271 (a) by $304,847.* Recommend deletion of redirected staff from Sonoma State Hospital. 683

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977 (SB 363), reorganized the Health and Welfare Agency, effective July 1, 1978. The reorganization established the new Department of Developmental Services which administers the Lanterman Developmental Disabilities Services Act and is responsible for administering those programs which provide services to individuals who are developmentally disabled (DD). State law defines a developmental disability as a disability originating before the age of 18, which continues or can be expected to continue indefinitely, and which constitutes a substantial handicap for the individual. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, autism, or conditions closely related to mental retardation.

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 major components of the Department of Developmental Services are:

1. The *Community Services Division* which is responsible for developing and maintaining a continuum of care and services for persons with special developmental needs who reside in the community. The division administers three programs consisting of:

a. The 21 *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.

b. The *Continuing Care Services Branch* (CCSB) which provides protective living and social services at the request of the regional centers.

c. The *Program Development Branch* which administers the Program Development Fund, the purpose of which is to increase community resources and identify other program, residential and service needs of clients and their families.

2. The *State hospital programs* for developmentally disabled which provide care, treatment and developmental services to all clients referred to the state hospital system by the regional centers. Agnews, Fairview, Frank L. Lanterman, Porterville, and Sonoma Hospitals treat only developmentally disabled patients. Camarillo, Napa, Patton and Stockton Hospitals operate programs for the developmentally disabled and the mentally disabled through a contract with the Department of Mental Health.

3. The *Planning and Evaluation Program* which provides services to the Community Services Program and the State Hospital Services Program.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $380,490,522 from the General Fund for the support of the Department of Developmental Services and local assistance in 1979–80. This is an increase of $14,825,288, or 4.1 percent, over estimated expenditures in the current year.

Item 269 proposes $9,323,299 for the support of the department and Item 271 proposes $371,043,785 for local assistance. Funds for the state hospitals are included in Item 271 for transfer to Item 270 as necessary. Item 270 is a "zero" appropriation item which authorizes the State Controller to transfer funds from various other appropriation items to it to make payments for services provided in the state hospitals.

Total proposed program expenditures in 1979–80, including federal funds and reimbursements, are $498,762,515. Tables 1 and 2 show the proposed level of General Fund expenditures for support and local assistance during the budget year. Table 3 compares program expenditures in the current and budget years.

In compliance with Control Sections 27.1 and 27.2 of the Budget Act of 1978, the department's operating expenses have been reduced by $1.6 million and its personnel costs have been reduced by $700,000 (27.5 positions) during the current year budget. The budget proposes that ten of the 27.5 positions be deleted in 1979–80, thereby reducing the savings from Section 27.2 to $250,000 in the budget year. The department is in the process of deciding on specific positions to be eliminated. These positions will be identified during budget hearings.

Table 1

Department of Developmental Services—Support

1979–80

A.	Budget Base—1978–79		$8,388,883
	Adjustments in current year		−317,569
	Revised budget base		$8,071,314
B.	Budget-year Adjustments		
	1. Personal Services		
	a. Sections 27.1 and 27.2 Restorations	$450,000	
	b. Staff Benefits Increase	221,860	
	c. Reimbursable programs	−439,670	
	d. Positions transfer	20,659	
	e. Section 12.9 Budget Act of 1978 (Reorganization adjustment)	−1,343	

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

f. One-time projects	−136,434	
g. Merit salary adjustment	93,378	
h. Proposed steno position	12,816	
i. Audits	10,264	
j. Budget Change Proposal	757,473	
		$989,003
2. Operating Expenses and Equipment		
a. Reimbursable programs	$−59,293	
b. Funding adjustment	3,229	
c. Position transfer	−8,810	
d. One-time projects	−126,525	
e. 5% operating expense increase	219,539	
f. Training	−376,614	
g. Budget Change Proposal	605,077	
		$256,603
3. Reimbursements		
a. Sections 27.1 and 27.2 (Administrative adjustments)	−240,000	
b. Staff benefits increase	−109,858	
c. Reimbursable programs	498,963	
d. Funding adjustment	−3,229	
e. Transfer six positions from Community Care to planning and evaluation	144,253	
f. 5 percent operating expense increase	−119,363	
g. Merit salary adjustment	−50,395	
h. Audits	78,832	
i. Budget Change Proposal	−192,824	
		$6,379
Total Proposed Budget Increase		$1,251,985
Proposed General Fund Expenditures (Item 269)		$9,323,299

Table 2

Department of Developmental Services
Local Assistance (General Fund)
1979–80

	Cost	*Total*
A. Budget Base—1978–79		$357,470,482
B. Budget Adjustments		
1. Regional Centers Operation		
a. Six percent cost-of-living increase	$7,353,510	
b. Caseload Increase	6,344,149	
c. Section 10.68 Budget Act of 1978—one time availability of funds	−2,500,000	
		$11,197,659
2. State Hospitals		
a. Price Increase (operating expenses)	$1,125,130	
b. Staff benefits	3,463,803	
c. Population Adjustments	−1,964,923	
d. Training	307,214	
e. Special repairs	−915,771	
f. Merit Salary Adjustment	1,602,092	
g. Salary saving shift	−450,000	
h. Licensing standard	−599,622	
i. Psychiatric Technician apprenticeship	−737,796	
		$1,830,127

3. Protective Living Services		
a. Price Increase (operating expense)	$75,015	
b. Staff benefits	154,161	
c. Merit salary adjustments	50,457	
d. Position transfer	−144,253	
e. Salary savings shift	240,000	
f. Increased caseload	170,137	
		$545,517
Total Proposed Budget Increases		13,573,303
Proposed General Fund Expenditures (Item 271)		$371,043,785

Table 3
Department of Developmental Services
State Operations and Local Assistance Expenditures by Program
1978–79 and 1979–80

	Estimated 1978–79	*Proposed 1979–80*	*Percent Change*
Community Services			
State Operations	$12,986,043	$13,117,136	1.0%
Local Assistance	128,335,279	138,702,646	8.1
Total	141,321,322	151,819,782	7.4
State Hospitals			
State Operations	6,477,726	6,122,275	−5.5
Local Assistance	335,118,389	338,353,086	1.0
Total	341,596,115	344,475,361	0.8
Planning and Evaluation			
State Operations (total)	873,970	2,343,934	168.2
Legislative Mandates			
Local Assistance (total)	123,438	123,438	0
Administration			
State Operations (total-distributed)	(5,721,620)	(5,688,977)	−0.6
Subtotal	483,914,845	498,762,515	3.1
Reimbursements	−115,129,923	−115,887,398	0.7
Net Total	$368,784,922	$382,875,117	3.8%
General Fund	$365,665,234	$380,490,522	4.1
Developmental Disabilities Program Development Fund	1,620,400	1,620,400	0
Federal Funds	1,499,288	764,195	−49.0
Personnel Years	15,651.3	15,236.2	−2.7

I. COMMUNITY SERVICES PROGRAM

The Community Services Division is responsible for the development and maintenance of community services. The division consists of: (a) the 21 regional centers; (b) the Continuing Care Services Branch and (c) the Program Development Branch.

The budget proposes $151,819,782 (including pro rata administrative costs) for support of the community services program in 1979–80. This is an increase of $10,498,460, or 7.4 percent, over estimated expenditures in the current year.

The budget proposes $138,176,915 for regional centers in 1979–80. This is an increase of $11,124,137 or 8.8 percent, over estimated current year expenditures.

The budget proposes expenditure of $11,593,228, for the Continuing Care Services Branch which is an increase of $427,605, or 3.8 percent, over

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

the estimated expenditures in the current year.

The budget proposes $2,049,639, for the Program Development Branch. This is a decrease of $1,053,282, or 34 percent, below the estimated current year expenditures. The decrease is due primarily to the transfer of $735,-093 in PL 94-103 federal funds to the Department of Social Services, pursuant to Chapter 432, Statutes of 1978. This act authorized the transfer of the State Council on Developmental Disabilities and the Area Boards on Developmental Disabilities to the Health and Welfare Agency. The Department of Social Services has been designated by the agency to provide support services to the council and boards. Other factors contributing to the decrease in this branch are a reduction of $95,109 in Title II funds used during 1978–79 to support community facilities for the developmentally disabled and various adjustments associated with the department's internal reorganization.

Regional Centers

We recommend approval.

The budget proposes $136,252,215 for support of regional centers in 1979–80, excluding pro rata charges. This is an increase of $11,197,659, or 9 percent, over estimated expenditures in the current year. The total consists of $52,374,681 for regional center operations, $76,534,024 for purchase of services and $7,353,510 for price and provider increases. The price and provider rate increase represents a 6 percent cost-of-living adjustment for regional center operations and purchase of service costs.

The 21 regional centers are private nonprofit corporations which are under contract to the state to provide fixed points of referral in the community for developmentally disabled persons and their families. The primary objective of the regional centers is to provide diagnostic, counseling and referral services which enable the developmentally disabled to live as close to a normal life as possible. The centers are also to act as advocates and brokers of services in the community on behalf of the developmental disabled.

New Caseload Costs

Because the regional centers' caseload is rising, the 1979–80 budget must provide funds to finance (a) the full-year cost of new caseload added in the current year and (b) the anticipated new caseload projected in the budget year. The amount required is $12,472,376. However, the budget proposes an augmentation of only $6,344,149 to finance this caseload. The balance is derived by redirecting $6,128,227 from other existing regional center activities.

The budget describes the redirection of existing funds as resulting from (a) "a careful prioritization of services", (b) "a reassessment of other revenue sources" and (c) "a stringent review of administrative costs". However, material that we have received indicates that an arbitrary 10 percent "efficiency factor" was subtracted from the current-year budget base. The amount resulting from the "efficiency factor"—$12,256,455—was then reduced by one-half to produce a net figure of $6,128,227. Thus, the $6,344,149 augmentation is the difference between the cost of increased caseload and an arbitrary ten percent "efficiency factor".

Accuracy of Caseload Data

A major continuing problem of the regional center program, and one that has a significant impact on center support, is the unreliability of caseload data. Because caseload projections are virtually the sole basis for annual support allocations, the accuracy of the data becomes critical.

There are three problems with the data. First, there is a lack of uniformity in the application of the developmental disabilities definition. Current law mandated that by March 1, 1977, the department issue regulations which delineate by diagnostic category and degree of handicap, those persons eligible to receive services by regional centers. Nearly two years after the statutory deadline, however, the regulations still have not been issued. Thus, regional centers remain as 21 separate organizations, interpreting the basic definition in a variety of ways. In field visits, several regional centers cited examples where a client would be denied eligibility for services at one center, but the same client would be accepted as eligible by another center. While we agree that professional judgments might vary and some flexibility needs to be retained, we believe that the department should comply with the law as soon as possible. In our judgment, the arbitrary application of 21 different definitions creates problems in terms of an accurate caseload count as well as equity of service.

Secondly, under current law regional centers are to provide follow-up services to all clients. For some clients, fairly continuous case management services may be required, while for others a once-a-year 15-minute phone call may be sufficient. Obviously, the first case involves an extended commitment of time and resources, while the second involves a very minimal commitment. In the past, however, some regional centers have counted both types as active cases in their caseload data. As mandated by law, the department has attempted to define an active case during contract negotiations with the regional centers. The department is seeking to define an active case as one that requires one face-to-face contact per quarter.

Third, while regional center budgets are based on a caseload of 72,477, other providers of service have primary responsibility for case management and care for a number of these same persons. This is shown in Table 4.

Table 4
Developmentally Disabled Year-End Caseload [a]

Fiscal Year	*Regional Center (Gross Caseload)*	*Continuing Care Services Branch (CCSB)*	*Percent of Regional Center Caseload*	*State Hospitals*	*Percent of Regional Center Caseload*	*Regional Center (Net Caseload)*	*Total Percent of Regional Center Caseload*
1975–76	32,210	8,116	25%	9,942	31%	14,152	44%
1976–77	42,587	8,458	20	9,585	23	24,814	57
1977–78	54,461	9,311	17	9,374	17	35,776	66
1978–79 Estimated	64,625	10,327	16	9,011	14	45,287	70
1979–80 Proposed	72,477	11,177	15	8,637	12	52,663	73

[a] Source: 1979–80 Governor's Budget.

Thus, even though current law mandates that regional centers have responsibility for all clients, this responsibility does not always involve significant workload. For example, the department's Community Care Services Branch, at the request of the regional centers, generally provides services for children and adults in out-of-home placement. State hospital clients are provided most services by the hospital, although the regional centers do provide some case management. Currently, one regional center caseworker has responsibility for providing case management services for 130 state hospital clients.

The budget projects a 7,852 estimated caseload increase on an estimated base of 64,625 "active" clients. The department states that the various regional centers are currently in the process of purging the list of "inactive" cases. However, given the lack of (1) eligibility regulations, (2) uniform case definitions, and (3) the need to purge files, we do not believe the Legislature should have any confidence in the accuracy of current caseload projections.

Developmental Disabilities Prevention Program

We recommend deletion of $820,031 from Item 271(e) for the developmental disabilities prevention project.

The budget proposes an expenditure of $820,031 from the General Fund for the continuation of the Developmental Disabilities Prevention Project which is the same amount that is included in the budget for the current year. The purpose of this pilot project is to expand the identification of and service to infants who are at risk of becoming developmentally disabled.

During the current year, the department selected five applicants to provide prevention services for a one-year period at cost of $810,000. Supplemental report language to 1978 Budget Act requires the department to submit a preliminary evaluation report on the project by January 15, 1979, and a final report by June 1, 1979. The department states that a preliminary report will not be submitted until March 15, 1979.

We do not believe an additional $820,031 is justified for this program in the budget year. According to the department, the current contract process has yet to be completed. In fact, one contractor who was initially selected may not receive a contract because of problems in negotiations. As of January 25, 1979, none of the five applicants initially selected for the pilot project had commenced work. Thus, even if the contractors commenced work on February 1, 1979 (which may not happen), the funds provided by the existing appropriation would fund the contracts for a full seven months of the 1979–80 fiscal year. In addition, we cannot justify recommending additional funding until the results of the projects have been evaluated. An evaluation has been funded by the Legislature in the current year, but has not commenced. For these two reasons, we recommend deletion of the funds.

New Federal Developmental Disabilities Legislation

PL 95-602, which was enacted in 1978, amends the current federal developmental disabilities law. The new law necessitates substantial amendments to current state statutes in order to maintain California's eligibility for federal developmental services funds. The major areas of difference

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

between the federal and state laws now involve: (1) age, (2) type of disability, and (3) degree of disability.

Currently, the law specifies that a developmental disability must occur before age 18. The new federal law extends this to age 22. Under Chapter 1364, Statutes of 1976, the definition of developmental disability is categorical—that is, a client must "fit" into one or more categories such as mentally retarded. The new federal law is functional rather than categorical, and includes both physical and mental impairments. Under state law, eligibility requires that the disability be substantial. The new federal law states that the disability must result in substantial functional limitations in three or more of the following seven areas of life activity: self-care, learning, mobility, self-direction, capacity for independent living, economic sufficiency and receptive and expressive language, and reflects the person's need for a combination and sequence of special interdisciplinary, or generic care, treatment, or other services which are life-long or for an extended duration.

In addition, the new federal law makes changes that affect the State Council, area boards and protection and advocacy relating to planning, monitoring and advocacy activities. Obviously, the new law will have a significant impact on the state's developmental services program, particularly in terms of caseload. The impact cannot be assessed, however, until the Secretary of HEW issues new regulations based on the amended federal law. The regulations should be available in April or May 1979. In our judgment, the new federal changes intensify the need for accurate caseload data in California, as previously discussed.

II. STATE HOSPITAL SERVICES

General Description

The budget proposes $334,662,211 in 1979–80 for hospitals operated by the Department of Developmental Services, an increase of $3,234,697, or 1 percent, over the estimated current-year expenditure. The small increase results from budget adjustments necessary to account for a decrease in authorized state hospital positions from 16,165 in the current year to 15,746 in the budget year resulting from a reduction in hospital population. The budget identifies $233,445,487 of total hospital support for the developmentally disabled programs.

The State Hospital System (All Programs)

Table 5 identifies total state hospital expenditures and authorized positions for all programs since 1973–74.

State hospitals receive revenues from the Medi-Cal program for clients eligible for Medi-Cal benefits. These revenues are compared to total state hospital expenditures in Table 6.

Table 5
State Hospital Expenditures, All Funds
All Programs
1973–74 Through 1979–80
(In Millions)

	Actual 1973–74	*Actual 1974–75*	*Actual 1975–76*	*Actual 1976–77*	*Actual 1977–78*	*Estimated 1978–79*	*Proposed 1979–80*
Total Expenditure	$219.8	$255.1	$276.9	$294.1	$364.9	$393.4	$399.5
(Percentage increase over prior year)	-	(16.1%)	(8.5%)	(6.2%)	(24.1%)	(7.8%)	(1.6%)
Authorized positions	14,459.5	14,807.9	14,687.7	14,989.0	14,945.9	19,003.2	18,474.7
Program Funding							
Mentally Disabled [a]	$56.6	$78.2	$85.3	$88.8	$96.7	$117.7	$121.2
(Percentage increase over prior year)	-	(38.2%)	(9.1%)	(4.1%)	(8.9%)	(21.7%)	(3.0%)
Developmentally Disabled [a]	$126.5	$144.4	$156.7	$174.1	$215.8	$231.6	$233.4
(Percentage increase over prior year)	-	(14.2%)	(8.5%)	(11.1%)	(24.0%)	(7.3%)	(0.8%)
Judicially Committed [a]	$24.7	$23.2	$25.2	$25.2	$35.4	$35.1	$36.4
(Percentage increase over prior year)	-	(−6.1%)	(8.6%)	(0)	(40.5%)	(−.8%)	(3.7%)
Drugs [a]	$8.1	$1.8	$2.0	-	-	-	-
(Percentage increase over prior year)	-	(−77.8%)	(11.1%)	(−100.0%)	—	-	
Reimbursement	$3.9	$7.5	$7.7	$6.0	$17.0 [b]	$9.0	$8.5
(Percentage increase over prior year)	-	(92.3%)	(2.7%)	(−22.1%)	(183.3%)	(−47.1%)	(−5.6%)

[a] From General Fund appropriations.
[b] Includes Title II funds for Metropolitan State Hospital staff increases.

Table 6
Comparison of State Hospital
Expenditures and Medi-Cal Revenues
Fiscal Years 1973–74 Through 1979–80
(In Millions)

	All State Hospital Total Expenditures [a]	*Medi-Cal Revenues* [b]	*Medi-Cal as a Percent of Total Expenditures*
1973–74 actual	$219.8	$50.5	23.0
1974–75 actual	255.1	76.7	30.1
1975–76 actual	276.9	90.1	32.5
1976–77 actual	294.1	96.5	32.8
1977–78 actual	364.9	72.5	19.9
1978–79 estimated	393.4	112.4	28.6
1979–80 proposed	399.5	140.9	35.3

[a] Includes reimbursements.
[b] Includes state and federal funds.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Background

In order for state hospitals to be eligible for Medi-Cal and Medicare revenues, federal Social Security statutes require that: (1) the acute portion of the hospitals receive joint commission accreditation and (2) skilled nursing and intermediate care portions of the hospitals be certified. State law requires licensure of skilled nursing and intermediate care facilities by the Department of Health Services. Because of the similarity of the certification and licensing activities and in an effort to avoid duplication, HEW contracts with the Department of Health Services to perform the certification function. Approximately $6.8 million annually in reimbursements from Title XVIII and XIX supports the certification functions in the Department of Health Services. In addition to the Medi-Cal revenues, approximately $5.8 million in Medicare revenues are expected in 1979–80 for patients eligible for Medicare benefits in the state hospitals.

Decertification

During the past two years, the state hospitals periodically have been threatened with federal decertification, which would result in a corresponding loss of federal revenues. The first action occurred in the fall of 1977 when deficiencies in staffing levels at the hospitals led to actual decertification of eight hospitals.

Table 7

State Hospital Certification Status

Programs for Developmentally Disabled[a]	*Decertified*	*Recertified*
Frank D. Lanterman		
Skilled Nursing	July 31, 1977	—
Intermediate Care	"	—
Agnews		
Skilled Nursing	"	September 29, 1977
Intermediate Care	"	February 9, 1978
Fairview		
Skilled Nursing	"	February 1, 1978
Intermediate Care	"	May 12, 1978
Napa		
Intermediate Care	"	February 24, 1978
Camarillo	December 31, 1977[b]	March 31, 1978
Patton	"[b]	May 12, 1978
Programs for Mentally Disabled		
Metropolitan	February 16, 1978	—
Patton	March 1, 1978	—
Camarillo	"	—
Napa	"	—
Atascadero	"	—

[a] Porterville, Stockton and Sonoma State Hospitals have not been decertified to date.
[b] Provider participation agreements expired and were not renewed.

Table 7 provides the certification status of the state hospitals on January 1, 1979.

The Department of Developmental Services has estimated that almost $400,000 per month in revenue is being lost due to decertification. An additional $550,000 per month is being lost in hospitals for the mentally disabled.

In reaction to the decertification, the administration sponsored legislation to augment staff in the state hospitals in order to meet the certification requirements. Informed by the administration that the proposed $19,056,053 appropriation and 2,740 position augmentation would solve the certification problem, the Legislature provided these resources in Chapter 71, Statutes of 1978 (AB 2481).

At the same time, through the provisions of Section 28 of the Budget Act of 1977, the administration utilized $3.1 million in Title II funds to establish 222 positions at Metropolitan State Hospital during 1977–78. This augmentation, together with the deficiency legislation (AB 2481) augmented state hospital staff by 2,962 positions, an increase of more than 20 percent. Full year funding for both the certification requirements and the Metropolitan staff enhancement was included in the 1978–79 budget at an estimated annual cost of $50 million.

Subsequently, the 1978–79 budget proposed a further state hospital staff augmentation of 214 positions and $3.1 million to bring hospitals from 88 percent to 94 percent of the staffing standard established in 1973. The Legislature rejected this proposal because of significant disparities between the various staffing standards being used by the Department of Health.

Disparity in Staffing Standards. During hearings on the 1978–79 budget, it was clearly established that the federal certification standards used to justify the 2,740 staff augmentation are extremely vague. These standards merely require "adequate staffing", thereby leaving the application of these standards highly subjective.

To further complicate the situation, another staffing standard exists in state statute. Section 4316 of the Welfare and Institutions Code states:

> ". . . All state hospitals for the mentally disabled and developmentally disabled shall be staffed to meet the standards of Program Review Unit, Number 72 or any modified version of such standards. Such standards or modified version shall be fully implemented by June 30, 1980."

This is commonly referred to as the 1973 staffing standard.

Because the federal licensing standard is so vague and is not consistent with the 1973 staffing standards, the Legislature took the following actions in 1978:

(1) It rejected the administration's proposal to bring state hospitals to 94 percent of the 1973 staffing standard in 1978–79 by deleting the proposed staffing increase;

(2) Adopted Budget Act supplemental report language requiring a report from the Departments of Mental Health, Developmental Services and Health Services regarding the feasibility of modifying the 1973 staffing

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

standards to incorporate the licensing standards; and

(3) Adopted ACR 103 requesting the Departments of Health Services, Mental Health and Developmental Services to establish standards for staffing in the state hospitals which allow for objective evaluation.

The departments established a task group early in the fiscal year to meet the requirements of ACR 103. Due to the magnitude of the study, the departments requested an extension of the January 1, 1979, deadline imposed by ACR 103 and the supplemental language. The report will now be provided by January 31, 1979.

We have not seen the results of the study. However, we understand that the Legislative mandate is being used as justification to modify the 1973 staffing standard.

In the process of modifying the standard in the Department of Developmental Services, a Client Development Evaluation Report (CDER) is utilized to "cluster" clients based upon severity of disability. A "prescriptive model" which defines the desired treatment pattern for each cluster is developed by the clinician based upon the needs of the cluster.

The subjectivity of the "prescriptive model" determination may not achieve the Legislature's goal of a more objective basis for making staffing determinations. At the same time, however, it is likely to produce standards that call for significant increases above both the 1973 staffing standards and federal licensing standards. If this happens, the Legislature may find that the 20 percent staff increase it approved in the spring of 1978 is not the staffing solution claimed at that time by the administration.

Population. In the late summer of 1978, the second certification crisis occurred. However, this crisis resulted from population projections rather than from staffing standards per se. The Department of Health Services received a letter dated August 17, 1978 from HEW, indicating that six buildings at Fairview State Hospital and 19 buildings at Sonoma State Hospital "were certified under Title XIX . . . without a written plan of correction assuring compliance of all plant deficiencies by . . . July 18, 1982." According to the letters, the certification was made in violation of federal standards and retroactive decertification was threatened. Subsequently, the Department of Health Services received similar letters from HEW regarding two buildings at Agnews, 14 units at Camarillo, two buildings at Napa, 15 units at Porterville, and three buildings at Stockton. HEW cited inappropriate certification of buildings because either (1) the building was part of the state's plan of correction but would not meet federal environment and life safety regulation requirements by July 18, 1982, or (2) the building was not part of the plan of correction and was expected by HEW to be in use in July 1982 based upon the hospital population projections in the *1978 Update of the Response to Item 390,* dated May 15, 1978. The population projections contained in the *Update,* at that time, had not been accepted by the administration or approved by the Legislature. Thus, they had no official standing as far as California was concerned. The Legislature had previously appropriated funds for capital outlay based upon lower population projections which were accepted by the administration in its report entitled *Response to Item 390* dated April 8,

1977. These population projections were approximately 10 percent less than the 1978 update.

In response to the threat of decertification, the Departments of Developmental Services and Mental Health produced still another set of population projections which basically updated the 1978 update. The administration accepted the projections and submitted a plan of correction to HEW for buildings which were not included in the previous capital outlay appropriations. On October 12, 1978, the Director of Finance authorized the use of $820,000 from the Emergency Fund to include the buildings in the plan for capital improvements required by the federal government. In doing so, the administration was anticipating *an additional* $45 million on top of the $47,566,246 already provided for capital outlay, would be required to satisfy federal requirements. This $45 million, it should be noted, would provide for a hospital population that had never been approved by the Legislature.

In response to the administration's plan of correction, a letter from HEW to the Director of Health Services dated October 31, 1978, applauded the state's "determination and initiative" in "bringing together resources needed to upgrade the state's facilities for the developmentally disabled." However, the letter stated that the plan of correction was unacceptable "at this time" and ". . . in order for the plan to be considered acceptable, the Department of Health Services must agree to the following:

> Immediately non-renew or terminate the Title XIX provider agreements for all buildings not presently funded for corrections if the Legislature does not authorize the necessary supplementary funds for the buildings in question by May 1, 1979."

To date, the buildings in question have not been decertified.

Population Projections

We recommend that control language similar to Section 28.3 of the Budget Act of 1978 for the Departments of Social Services and Health Services be added to the budget requiring the Departments of Developmental Services and Mental Health to periodically submit assumptions underlying state hospital population projections to the Department of Finance for approval prior to development and use of these projections. Both assumptions and projections should also be forwarded to the Legislature for review.

To our knowledge, there are currently four population projections upon which capital outlay and support funding are being based. They are the:

1. *Response to Item 390, 1977,* which is the basis for capital outlay expenditures already approved by the Legislature.
2. *1978 Update of the Response to Item 390,* which is the basis for HEW decertification.
3. *Adjusted Populations proposed on October 1, 1978,* which is the basis for the administration's Emergency Fund commitment and proposed capital outlay request.
4. *Projections contained in the Governor's Budget,* which are the basis for the staffing request covering the 1979–80 fiscal year.

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We attempted to compare these projections but could not, due to varying time periods covered by the various reports. One report shows population levels to the year 1985, another to 1983, a third to 1982, and the Governor's Budget to 1980. However, we believe that a comparison of the budget population projection with the 1982 projections used as the basis for the Emergency Fund commitment illustrates the problems resulting from the way in which population projections are made by the administration. State hospital populations have been declining on an annual basis since 1968. The Governor's Budget projects the decline to continue through 1980. However, as shown in Table 8, the long-range projection underlying the "need" for an additional $45 million in capital outlay reflected a *higher* population level in 1982 than the budget projects in 1980. This implies that the current trend in hospital population will reverse after 1980, and hospital population will begin growing.

Only two months passed between the development of the long-range and short-range population projections, and we are not aware of any significant program changes that occurred during that two-month period. It appears the projection developed in reaction to the federal government's decertification threat was an overreaction, if the Governor's Budget is reasonably accurate, and the factors behind the historical trend of hospital population decreases have not been altered.

Table 8
Comparison of Governor's Budget State Hospital Population Projections With October 1, 1978, Emergency Fund Loan Projections

	June 1976	*June 1977*	*June 1978*	*Estimate June 1979*	*Estimate June 1980*	*October 1, 1978 Adjusted Population Estimate June 1982*
Agnews	936	937	911	912	901	1,115
Camarillo	587	538	575	535	497	587
Fairview	1,685	1,546	1,459	1,331	1,211	1,141
Napa	381	373	429	422	412	466
Frank D. Lanterman	1,726	1,644	1,560	1,483	1,400	1,273
Patton	314	345	314	302	287	291
Porterville	1,741	1,678	1,644	1,587	1,536	1,543
Sonoma	1,942	1,907	1,877	1,845	1,813	1,573
Stockton	630	617	605	594	580	695
TOTALS, DEVELOPMENTALLY DISABLED	9,942	9,585	9,374	9,011	8,637	8,684
Changes from Preceding year	−155 (−1.5%)	−357 (−3.6%)	−211 (−2.2%)	−363 (−3.9%)	−374 (−4.2%)	+47 (+0.5%)

It is our understanding that yet another population projection is being developed and will be made available in February 1979.

In summary, the most recent decertification crisis was not handled well by the administration, and some of the unfortunate results could have been avoided.

(1) Hospital population projections, which had not been adopted by the administration or reviewed and approved by the Legislature were made available to HEW in a manner that made them appear "official".

(2) The population projections developed by the Departments of Developmental Services and Mental Health were not made available to the Licensing Division of Department of Health Services which performs the certification function.

(3) The Departments of Developmental Services and Mental Health, when threatened with decertification, basically accepted the population projections on which the threat was based and committed funding without legislative review.

(4) Two months later, the Governor's Budget reflects a significantly lower population level than that upon which emergency funds were committed.

There is nothing that can be done about informal communications between departmental staff and HEW that may later be used as the basis for decertification threats. However, we believe that control language should be added to the Budget Bill by the Legislature that formally identifies the partnership between the administration and the Legislature in the area of population projections. In the future, hospital population projections—the key factor in funding and certification—should receive careful scrutiny by both the administration and the Legislature before they are adopted or submitted to federal authorities. These projections do not relate to something over which the Legislature has no control. The number of persons to be treated in state hospitals is a policy matter not merely something to be discovered by staff. The Legislature should have an opportunity to be involved in the decision-making process and not find itself in a situation where no alternatives to the staff's proposals are possible.

Although estimates are subject to change by virtue of their being estimates, drastic changes in projections require policy consideration.

Continued Certification. The Legislature may wish to further consider what price in terms of meeting federal certification requirements it is willing to pay in order to receive $50 million to $70 million annually in federal funding. Meeting staffing standards for certification is currently costing $50 million annually. When the cost is offset against the revenue, the state benefits by $20 million annually. However, in addition, a capital outlay commitment of $47 million to meet federal fire and life safety and environmental requirements was previously approved. The budget proposes an additional $45 million for capital outlay improvements, for a total capital outlay requirement of $92 million to meet certification standards. Thus it will take five years to recover the capital outlay commitment.

Approximately 90 percent of the developmentally disabled population is eligible for Medi-Cal. Most of the state hospital clients are receiving the equivalent of skilled nursing or intermediate care. Payment is made by the Medi-Cal program based upon set rates for skilled nursing and intermediate care facilities which are an average of $28.49 and $22.76 per day, DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

respectively. State hospital costs, however, are significantly in excess of that rate and are defrayed by the General Fund.

Budget Year Population Projections

We recommend a General Fund reduction of $3.6 million in Item 271 (a) to reflect a reduction in hospital staff associated with a reduction of 250 patients in state hospitals and their placement in the community.

The state hospital population projections contained in the Governor's Budget do not reflect the impact of the $2.5 million made available through Section 10.68 of the Budget Act of 1978 for community placements. As of January 15, 1979, the department has approved allocations to regional centers which identify 388 community placements from state hospitals during the current year. The Governor's Budget, however, does not reflect the additional community placements expected to occur in the current year as a result of the $2.5 million made available. Instead, the clients to be served by this $2.5 million are included in the budget year hospital population. Realizing that identifying proposed placements does not always equate to actual placements, we estimate that a hospital patient reduction of 250 in the budget year is not unreasonable. This implies that the Governor's Budget is overstated by approximately $3.6 million.

The department is currently developing a revised population projection which will be available in February 1979. These projections should reflect this reduction.

Medi-Cal Reimbursements

We recommend elimination of 123.4 positions for Medical Assistance Units at the state hospitals for a reduction of $1,399,806 in Medi-Cal support, Item 261.

The budget contains $2,799,613 in reimbursements from the Medi-Cal program. These reimbursements support separate units identified in each of the hospitals as Medical Assistance Units. These units were initially established to perform Medi-Cal functions required by federal regulation. Over time, the functions were either absorbed by Medi-Cal field staff or federal requirements have been met throughout the hospitals as a result of certification review. The positions were never abolished and the Medi-Cal program has continued to be billed for the units.

Eliminating the Medi-Cal reimbursements is in order because (1) staff are not performing strictly Medi-Cal functions, (2) separate Medi-Cal payment for this unit is added reimbursement for services intended to be covered by the overall Medi-Cal rate, and (3) the need for a separate Medi-Cal unit is no longer apparent. Budgeting for reimbursements which will, in all probability, be disallowed is imprudent.

Further, in discussions with Department of Health Services licensing staff, we determined that these units are not included in level of care reviews. Staff from these units are being utilized for such functions as "nurse of the day." Licensing review does not include these units, and therefore elimination of the units would not jeopardize certification. Therefore, we recommend elimination of these units, for a savings of 123.4 positions. Total state hospital expenditures, Item 270 (a), and reimbursements, Item 270(d), would be reduced by $2,799,613, producing no impact on the General Fund for state hospitals. However, Item 261 support for the Medi-Cal program should be reduced by $1,399,806.

Psychiatric Technician, Apprenticeship Program

We recommend a reduction of $500,000 and three positions in Item 271 (a) to eliminate new classes for the psychiatric technician apprenticeship program in fiscal year 1979–80.

The budget proposes $1,499,586 for the psychiatric technician apprenticeship program. This is a reduction of $694,497 from estimated current year expenditures. The $1,499,586 includes a redirection of $157,116 from stipends to contracts to cover community college costs associated with the program. In addition $500,000 is included to begin two new apprenticeship classes consisting of 60 students. Three positions are proposed for workload increases associated with the two new apprenticeship classes. The positions are to be funded within the proposed $500,000.

The apprenticeship program was funded in the current year by $2,194,083 from the General Fund. This amount was to be expended to defray the cost of training 210 students. However, due to delays in implementation, the salaries for apprentices in the existing program are only expected to cost $652,010 in 1979–80. In addition, $190,460 is included in the budget to continue funding state staff currently committed to the program.

The Governor's Budget indicates the administration's intention to evaluate the program during the 1980–81 budget process. We believe, however, that an evaluation of the current program should be prepared prior to augmenting the existing appropriation. Therefore, we recommend deletion of the $500,000 proposed to expand the current program.

Hospital Recruitment

We recommend a reduction in Item 269 of two positions and $92,669 for hospital recruitment.

A unit was established in the Department of Health during 1977–78 to carry out an effective recruitment program for medical and other clinical personnel for the state hospitals. Creation of this unit was considered to be a necessary accompaniment to the addition of 2,962 new positions in the state hospitals. The Department of Finance requested four positions to staff this function during the current year, stating that, "It is anticipated that this is a one-time effort and will only require continuation through June 30, 1979." These positions were included in the approved budget for 1978–79. The 1979–80 budget proposes that two of the four positions be continued.

A State Personnel Board report dated October 13, 1978, identifies the recruitment activities of the unit such as attending meetings and conferences and provides statistics on the "net" change in filled positions since July 1, 1978. The report concludes that, "The Hospital Hiring Program continues to show positive results. It is efficiently functioning as an ongoing, centralized recruitment unit with the capability of handling special needs of individual hospitals." However, the report does not identify what portion of the positions were filled as a result of the unit's activities as compared to what portions were filled due to efforts on the part of individual hospitals. In addition, statistics from the department indicate that any gains in the number of hires are continually offset by separations. The vacancy rate for state hospital staff was 10 percent on September 29, 1978. Physical therapists and speech pathologists positions were experiencing a vacancy rate of over 40 percent.

Based on our analysis, we recommend the elimination of the unit because (a) it was the intent of the Legislature to fund a one-time effort; (b) there is a lack of data to establish the unit's effectiveness.

III. PLANNING AND PROGRAM EVALUATION

We recommend a reduction of $400,463 in Item 269 and deletion of 10 proposed positions for the planning and program evaluation function.

The budget proposes the establishment of a fourth division in the department to provide planning and evaluation services to the Community Services program and the state hospital system. The new Planning and Evaluation Division is to be established from:

1. 30 positions redirected from the Management Consultation Section, Patient Benefits and Accounts Section, Regional Centers Branch, Program Development Branch, Community Services Division, Administration Division, Hospital Services Section, Program Support Branch, and Statistics Section;
2. Six new positions to establish an evaluation system for clients with developmental disabilities; and
3. 10 new positions for functions previously performed by administratively redirected staff from Sonoma State Hospital.

The budget proposes $2,343,934 for support of the division in 1979–80. This amount consists of (a) $1,021,282 for redirected staff, (b) $392,405 for six new positions, (c) $400,463 for ten new positions to replace the Sonoma State Hospital positions, and (d) $529,784 in administrative overhead.

The consolidation of redirected positions would centralize the existing planning, statistical, and analysis functions and expertise within the department. Such a centralization should reduce the duplication of functions and increase efficiency. This should lead to greater productivity, thereby offsetting the potential need for new personnel within each of the previously decentralized sections in the future.

The six new positions, which are proposed to carry out the mandates of federal and state law (Chapter 1371, Statutes of 1976) calling for an evaluation system related to the needs of the Developmentally Disabled, are justified on the basis of projected workload requirements.

We do not believe that the 10 new positions budgeted at Sonoma State Hospital are justified. Since 1975, 10 positions from Sonoma have been administratively redirected to headquarters to perform such functions as rate setting, regulation development, state hospital population projections, and development of a statewide evaluation system mandated by state and federal law. The unit has also been utilized for one-time projects such as the state hospital staffing study under ACR 103.

This redirection was contrary to legislative intent. The Budget Act for the past two years has contained language stating, ". . . the Department

. . . shall not use positions or funds budgeted in the state hospitals elsewhere in the department." The 1979–80 budget proposes to correct the situation by establishing 10 new positions at headquarters to continue the functions of the redirected Sonoma State Hospital positions. We have already recommended the establishment of six new positions to meet the legislative evaluation mandate which was identified as part of the Sonoma unit's function. We believe the remaining functions can be absorbed by the 30 existing positions. For this reason, we recommend deletion of the 10 proposed new positions for a savings of $400,463.

Sonoma State Hospital Redirected Positions

We recommend a reduction of $304,847 and 10 positions from Item 271(a) for positions redirected from Sonoma State Hospital.

Budget language specifically prohibits the use of positions or funds budgeted in state hospitals elsewhere in the department. However, since 1975 the following positions from Sonoma State Hospital have been administratively redirected to headquarters in order to perform statistical evaluation functions:

3 Staff Psychologists,
1 Teacher,
1 Psychology Associate,
1 Psychometrist,
1 Senior Technician II,
2 Teacher Assistants, and
1 Office Technician.

The Governor's Budget proposes not only to permanently establish 10 new positions in the headquarters planning division but to also retain the 10 positions budgeted for Sonoma State Hospital but not used there since 1975.

Although the budget indicates that the Sonoma positions are essential level-of-care positions, the department's licensing staff have indicated that the 10 positions have not been considered in certification review. We, therefore, question the need to reestablish the 10 staff positions that have not been needed for almost four years and which are not required for certification.

Legislative Mandate

We recommend approval.

The proposed budget includes $123,438 from the General fund for the reimbursement of local mandated costs pursuant to Chapter 1406, Statutes of 1972. The proposed appropriation amount is the same as estimated to be expended during the current year.

The specific mandates to be funded are (1) payment of coroner's costs for inquests resulting from deaths at state hospitals under Chapter 498, Statutes of 1977, and (2) payment for court-appointed public defenders or attorneys to represent persons with developmental disabilities, in conservatorship or guardian hearings under Chapter 694, Statutes of 1975.

Health and Welfare Agency
DEPARTMENT OF MENTAL HEALTH

Items 273–275 from the General Fund — Budget p. 717

Requested 1979–80	$437,745,002
Estimated 1978–79	404,396,458 [a]
Actual 1977–78	357,743,376
Requested increase $33,348,544 (8.2 percent)	
Total recommended reduction	$31,641,087

[a] Does not reflect reappropriation contained in Chapter 332, Statutes of 1978.

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
273	Department Support	General	$11,449,656
274	Mentally Disabled-Judicially Committed	General	39,705,422
275	Local Assistance	General	386,589,924
	Total		$437,745,002

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *94 Positions Added in 1978–79. Reduce Item 273 by $1.3 million.* Recommend a reduction of 44 positions that are unlikely to be filled during current year. 686
2. *Management Information. Reduce Item 273 by $250,000.* Recommend funds to expand information gathering capacity be deleted because justification for the amount has not been presented. 687
3. *Utilization Review. Reduce Item 273 by $1 million.* Recommend funding of utilization review activity be deleted because information is lacking on how the funds will be spent. 687
4. *Local Mental Health Allocation.* Recommend allocation of funds methodology be revised to reflect program objectives and needs. 688
5. *Regulation Approval.* Recommend legislation deleting approval authority of the Conference of Local Mental Health Directors. 694
6. *Reappropriation Continuation. Reduce Item 275 by $12,594,449.* Recommend a reduction of funds requested for local programs financed with reappropriated funds in 1978–79. 699
7. *Cost of Living. Reduce Item 275 by $13,679,806.* Recommend a reduction of amount requested for cost of living in local mental health. 700
8. *Chapter 1233, Statutes of 1978 Funds. Reduce Item 275 by $2,250,000.* Recommend that program be continued at 700

the $3 million expenditure level reflected in authorizing legislation for community residential programs.

9. *County Short-Doyle Participation.* Recommend that the Legislature establish state policy regarding county withdrawal from the program. 701
10. *Title XX Funding.* Recommend revision of funding in Items 275 and 287 to reflect federal funds in Item 287 and General Fund money in Item 275 to consolidate all Title XX funds in a single state department. 701
11. *Section 27.2 Restoration. Reduce Item 275 by $566,832.* Recommend deletion of $566,832 for new positions in continuing care services unit. 702
12. *Population Projections.* Recommend control language requiring Department of Finance approval and legislative review of state hospital population projections and assumptions affecting those programs. 703
13. *Medical Assistance Units.* Recommend elimination of 3.6 positions in the hospitals for medical assistance units. (Funds for these positions are included in Item 261.) 704

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977 (SB 363), created the Department of Mental Health, effective July 1, 1978. The department administers the Lanterman-Petris-Short and Short-Doyle statutes. In addition, under the provisions of Chapter 1252, the department has responsibility for the administration of Atascadero and Metropolitan State Hospitals which exclusively serve the mentally disabled. Four other state hospitals—Camarillo, Napa, Stockton, and Patton—also serve the mentally disabled, as well as the developmentally disabled. Although these hospitals are under the jurisdiction of the Department of Developmental Services, the Department of Mental Health is responsible for the programs for the mentally disabled within those hospitals.

The Short-Doyle Act provides for delivery of mental health services through a state-county partnership. For fiscal year 1978–79, however, the financial aspects of the partnership were eliminated. This was done through Chapter 292, Statutes of 1978 (SB 154), which waived the required 10 percent county contribution. A companion measure, Chapter 332, Statutes of 1978, further increased the state's financial commitment to the mental health delivery system by reappropriating $13.3 million in savings from the 1977–78 mental health appropriation to augment local mental health funding in fiscal year 1978–79.

ANALYSIS AND RECOMMENDATIONS

The budget requests $437,745,002 for mental health-related programs under Items 273–275, an increase of $33,348,544, or 8.2 percent, above estimated expenditures in 1978–79. This increase does not reflect any cost-of-living adjustment for state employees. A six percent adjustment would raise the increase over 1978–79 to approximately 8.5 percent.

DEPARTMENT OF MENTAL HEALTH—Continued

Departmental Support (Item 273)

The budget proposes $11,449,656 for support of the Department of Mental Health in 1979–80. This is $1,278,781, or 12.6 percent, more than is estimated to be expended during the current year.

Control Sections 27.1 and 27.2, 1978 Budget Act Reductions

The department reduced its budget by $700,000 in operating expenses and $1 million and 46.1 personnel years during the current year in order to meet the requirements of control Sections 27.1 and 27.2 of the Budget Act. The budget proposes to continue the $700,000 reduction in operating expense and $433,618 of the $1 million reduction in personnel costs (or 20 of the 46.1 positions) in the budget year to comply with the intent of the sections. The reduction in the savings attributable to Section 27.2 is based on the need to maintain the Continuing Care Services Section staff.

Table 1 displays the adjustments to the current year base that bring about the proposed level of General Fund expenditures for the budget year.

Table 1
Proposed General Fund Increases for Support of the Department of Mental Health 1979–80

	Adjustment	*Total*
1978–79 Base Budget		$10,170,875
Reimbursement Adjustment	$13,492	
Merit Salary Adjustment	51,445	
Employee Benefits	146,733	
Price Increase	166,795	
Reorganization Staffing Adjustment	−27,006	
Replace Title II Funds for Audits	80,289	
Metropolitan Hospital Patient Tracking System	50,000	
Change Salary Savings for 94 New Positions from 30 Percent of Salaries and Wages to 4 Percent	577,848	
Change Salary Savings for Support Positions from 5 Percent of Salaries and Wages to 4 percent	219,185	
Total Adjustments to 1978–79		$1,278,781
Total, 1979–80 Proposed Budget		$11,449,656

Ninety-Four Position Augmentation

We recommend a reduction of 44 positions and $1.3 million in Item 273.

Last year the Legislature augmented the budget of the department by $3.2 million in order to establish 94 new positions. The budget proposes the continuation of these positions in 1979–80 fiscal year. The Department of Mental Health justified its request for the positions on the basis that they ". . . will provide the performance and accountability demanded by the Legislature, state administration, and the public." To date, we see no evidence of improvement in either performance or accountability.

In fact, as of January 3, 1979, only 21 of the 94 new positions had been filled (with three additional commitments made to prospective employees). Apparently, the cause of the department's inability to fill the positions on a timely basis is not the Governor's hiring freeze. We have been informed that the Health and Welfare Agency exempted the 94 positions from the freeze restrictions, provided the appropriate documentation was filed by the department.

We estimate that only 50 positions will be filled by the end of the fiscal year. In our view, the department has failed to meet its commitment to the Legislature to develop performance and accountability standards. On the basis of the department's performance to date, we cannot recommend the continuation of funds for positions the department has not filled. Therefore, we recommend deletion of 44 positions and a reduction of $1.3 million from Item 273.

Management Information and Program Analysis

We recommend a reduction of $250,000 in operating expenses for management information in Item 273.

Last year the Legislature provided $250,000 in operating expenses to "augment information gathering capacities at both state and local levels" as part of the proposal that included the addition of the 94 positions. We are informed that none of the $250,000 has been expended to date for information gathering purposes. We recommend against not including any funds for this purpose in the 1979–80 budget because:

1. The department has failed to identify the specific purpose for which the funds would be used.
2. No increase in workload has been identified.
3. There are existing resources within the department which should be utilized to improve information gathering capabilities, such as the Fiscal Systems Section staff which has responsibility for the department's Cost Reporting/Data Collection System (CR/DC), the current local mental health information system.

Utilization Review Funding

We recommend a reduction of $1 million for utilization review activities.

The current year budget for the department included $1 million for utilization review for local mental health inpatient activities. The Legislature adopted the following Supplemental Report language pertaining to the $1 million:

"It is recommended that no more than $1 million of Item 260 be expended on the costs of developing and operating review committees or PSRO agreements for Short-Doyle inpatient services. If the entire $1 million is not needed, such unused portion shall not be expended for other program purposes, but shall revert to the General Fund at the end of the fiscal year. It is further recommended that the Department of Mental Health establish procedures and guidelines by January 1, 1979, to ensure that Short-Doyle funds are not used to pay for inpatient services beyond those authorized through the admission and length-of-stay criteria slated to go into effect July 1, 1978. The procedures and guidelines may contain provision for exceptions to the admission and length-of-stay criteria."

None of these funds have been expended or committed as of the prepa-

DEPARTMENT OF MENTAL HEALTH—Continued

ration of this analysis. The budget proposes to continue the funding of this project at $1 million in the budget year.

We understand the department's time schedule for utilization review to be as follows:

January 15 and continuing—Provide technical assistance to counties in the process of developing or implementing utilization review systems. Train community program analysts and other regional mental health staff. Coordinate and monitor utilization review audits conducted by Department of Health Services.

January 22—Prepare request for proposal criteria and notify local mental health programs.

February 1—Recruit utilization review staff (one position)

March 1—Review proposals from counties and award $750,000 in "start-up" funding.

April 1—Review criteria implemented July 1, 1978, and adjust as necessary. Develop and implement utilization review process for outpatient and partial-day care services provided under Short-Doyle/Medi-Cal.

This is another case where the department has had funding available since July 1, 1978, and has delayed implementation.

The supplemental language quoted above reflects legislative intent that admission and length-of-stay criteria be applied to *all* Short-Doyle persons admitted to local hospitals, effective July 1, 1978. Instead, the utilization review criteria were applied only to those Short-Doyle patients who were also eligible for Medi-Cal benefits. This, however, accomplishes nothing new because federal statutes already require utilization review for the Medi-Cal population. Nothing in the plan identifies expansion of utilization review activity to all Short-Doyle persons.

The department is unable to identify how the $1 million proposed for the budget year will be used within the department or how the funds will be allocated to the counties. In fact, the department cannot identify how the approved funds for the current year are going to be utilized.

Because the need for continued funding has not been established, we recommend that $1 million requested for utilization review activities be deleted from the Item 273.

Allocation Methodology

We recommend that the department revise its current allocation procedures in local mental health to more accurately reflect the needs and objectives of the program as identified in the county plan and the department's program objectives.

The current department method of allocating funds to local programs is to provide each county the amount allocated in the prior year plus inflation adjustments. In the past, any increase above that amount has been distributed based on an equity formula developed by the department and the Conference of Local Mental Health Directors. The Conference is established by statute and consists of all regularly appointed directors of community mental health services and program chiefs as defined by regulation. In allocating funds no consideration is given to actual prior year spending levels.

Current Allocation Procedure Undermines Legislative Control. The current allocation procedure often results in program expansion without legislative approval and tends to commit the Legislature to higher and higher funding levels in subsequent years. Historically, the administration has augmented the initial allocation to some counties based upon projected expenditure shortfalls in others. These augmentations are often used to begin new programs. Then, because fund allocations are based on prior year allocations (rather than prior year spending), an increase in expenditures is necessary to continue the new programs initiated and funded with reallocations in the prior year. In other words, the Legislature is in the position of having to augment the program just to fund the "existing" level of program activity. We believe this practice of expanding the program without legislative review should be eliminated.

Current Procedure Unrelated to Need. The Department of Finance identified problems with the current allocation methodology in its review of community mental health services in August 1978 and stated:

"The Department . . . and the counties seem committed to the concept of a base allocation. Section 5703, W&I Code, states, 'If after the review specified in Section 5752, the county Short-Doyle plan is approved, the Director . . . shall determine the amount of state funds available for each county or city for specific services under the approved county Short-Doyle plan, from the funds appropriated for mental health services.' Thus, allocations are to be tied to specific services and not to historical funding levels. Instead, the process currently is for the Department of Health to make a preliminary allocation to the counties, who then prepare a plan that meets that dollar allocation. The county plan becomes a justification for funds rather than a document describing community needs in a priority order. Presumably, the intent of Section 5703 is for basic needs to be met in all counties before additional (state/county subsidized) specialized programs are added."

The administration, recognizing the problems with the current allocation procedure, proposed in its study entitled "Old Problems, New Directors" that the old allocation method be eliminated and a new procedure adopted. Under this new procedure, the department would (1) determine statewide mental health problems, (2) make county plans the basis of evaluation and (3) link expenditure allocations to evaluation results.

Need for Legislative Review. We believe that criteria for allocation and evaluation should receive legislative review before they are implemented by the department. Furthermore, we believe that the allocation procedure should begin with a clear statement of the program objectives, and should allocate funds based on these objectives, rather than on past allocations. Future allocations should be adjusted based upon an evaluation of the impact of the program.

Departmental Organization

The budget for the Department of Mental Health is internally inconsistent, and at odds with the organizational structure previously described to the Legislature. The narrative for departmental administration discusses

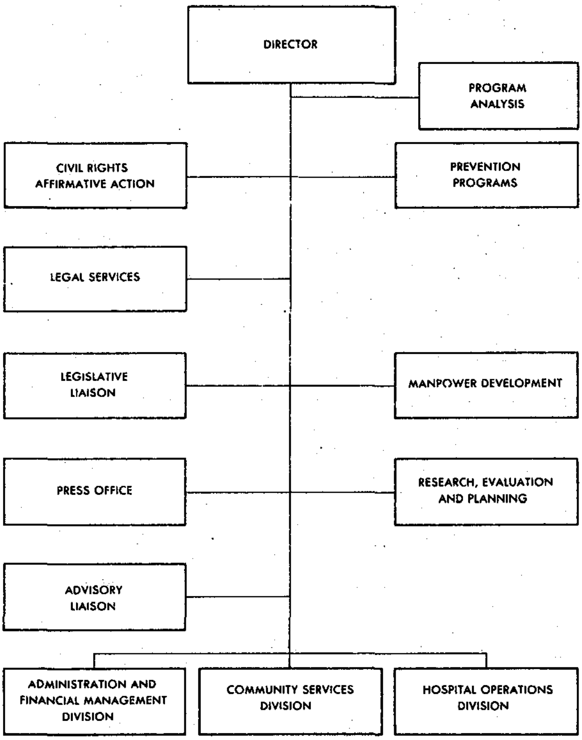
DEPARTMENT OF MENTAL HEALTH—Continued

a new organizational structure. The salary supplement reflects an entirely different configuration and neither of these configurations agrees with the organizational structure furnished to the Legislature pursuant to Section 28.01 (b) of the Budget Act of 1978, which was submitted in August 1978. Section 28.01 (b) allows the new directors of the departments created within the Health and Welfare Agency to alter organizational structure during the current fiscal year subject to legislative review. By August 1, 1978, and January 1, 1979, reports were to be provided to the Legislature identifying structure, resource allocation and budgetary requirements. The section specifies that, if the departments fail to comply with these requirements, no augmentations or expenditure of funds pursuant to Section 28 were to be authorized.

We are uncertain how resources are currently being utilized by the department, although we have been told that the department is operating as described in the budget narrative.

The following is a comparison of the three organization charts.

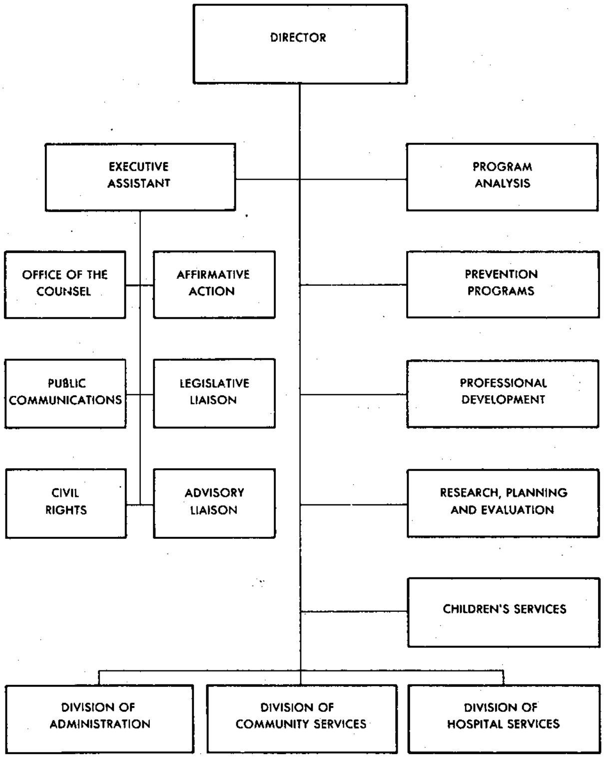
CHART 1
DEPARTMENT OF MENTAL HEALTH
1979–80 Governor's Budget
(SALARY SUPPLEMENT)



Source: Governor's 1979–80 Budget Document

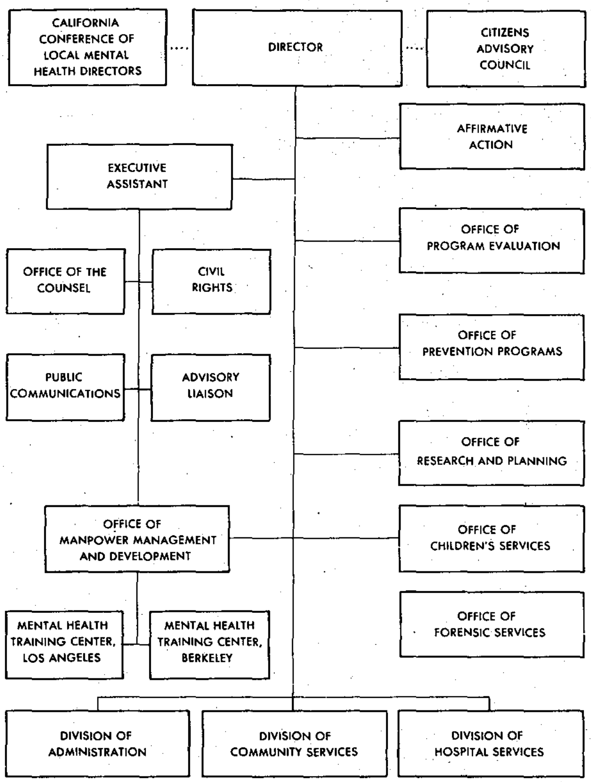
DEPARTMENT OF MENTAL HEALTH—Continued

CHART 2
DEPARTMENT OF MENTAL HEALTH
(Section 28.01 Response)



Source: Letter from Director of Finance to Chairman, JLBC, dated August 3, 1978

CHART 3
DEPARTMENT OF MENTAL HEALTH
(CURRENT ORGANIZATION)



Source: Department of Mental Health

DEPARTMENT OF MENTAL HEALTH—Continued

Lack of Audit Releases and Regulations

We recommend enactment of legislation amending Section 5750 of the Welfare and Institutions Code to delete the approval power of the Conference of Local Mental Health Directors.

During the current year the department has failed to issue any audit reports of local mental health programs.

Prior to the reorganization of the Health and Welfare Agency, the Department of Benefit Payments had responsibility for conducing Short-Doyle program audits, adopting regulations relating to audit exceptions and the audit appeals process.

Chapter 1252, which reorganized the agency and established the Department of Mental Health, transferred the audit function from the former Department of Benefit Payments to the new department, but the legislation did not contain language transferring the regulations to the new department. We have been told that the department's legal staff has informed the audit staff that a new set of regulations would have to be issued related to audit appeals.

Although the department has prepared the necessary regulations, it cannot issue them because of the provisions of Section 5750 of the Welfare and Institutions Code which states:

"The State Department of Mental Health shall administer this part and shall adopt standards for approving mental health services, and rules and regulations necessary thereto; provided, however, that such standards, rules and regulations shall be adopted only after consultation with both the Citizens Advisory Council and the California Conference of Local Mental Health Directors. Adoption of such standards, rules and regulations shall require approval by the California Conference of Local Mental Health Directors by majority vote of those present at an official session."

The regulations related to audit appeals were not reviewed by the Conference of Local Mental Health Directors when it held its semi-annual meeting in October 1978, and thus could not be approved by the Conference at that time. As a result, the department has had to wait until a meeting of the Conference in February 1979 to proceed with implementation of the appeals regulations.

By the time the regulations are implemented, an entire fiscal year will have passed in which the department was unable to issue or resolve audit exceptions. Counties will have had the use of funds to which they are not entitled for that entire period. The counties now have veto power over the state's regulation of county run programs.

This problem involved in promulgating audit appeal regulations illustrates what we believe is a major deficiency of Section 5750. Furthermore, we question the wisdom of granting a veto power over regulations to a group outside of state government. For these reasons, we recommend that the Legislature amend Section 5750 to delete the requirement that the Conference approve proposed rules and regulations. We believe this recommendation has even greater merit if the required 10 percent county contribution to local mental health programs is once again waived. Without a financial stake in the program, we do not believe that the counties should be able to exercise the kind of control over program policies as they are now able to by virtue of Section 5750.

Judicially Committed (Item 274)

Besides having responsibility for Lanterman-Petris-Short and Short-Doyle persons, the department has responsibility for persons committed by the court to a state hospital or a community based program under various provisions of the Penal Code or Welfare and Institutions Code. Costs of treatment for judicially committed persons are borne 100 percent by the General Fund.

The budget proposes $39,705,422, for care of the judicially committed in 1979–80. This is an increase of $1,553,722, or 4 percent, above estimated expenditures in the current year. The judicially committed population in the state hospitals is projected to increase 3 percent.

Table 2 identifies the increase proposed in the Governor's Budget for the mentally ill, judicially committed program.

Table 2
Proposed General Fund Increases for the Judicially Committed
1979–80 Fiscal Year

	State Operated Services	*Community-Based Programs*	*Program Evaluations and Patient Tracking System*	*Totals*
Fiscal Year 1979–80 Base	$34,663,228	$3,044,259	$106,000	$37,813,487
Price Increase	273,976	163,576	5,300	442,852
Employee Benefit Increases	914,105	7,536	—	921,641
Merit Salary Adjustment	287,131	2,407	—	289,538
Licensing Staffing Adjustment	96,812	—	—	96,812
Special Repairs Adjustment	−55,604	—	—	−55,604
Staff Adjustment in Accordance with Section 12.9, Budget Act of 1978	34,700	—	—	34,700
Atascadero State Hospital Overnight Visitation	112,420	—	—	112,420
STEP Program Assistant	29,077	—	—	29,077
Patient Rights Advocate	20,499	—	—	20,499
TOTALS	$36,376,344	$3,217,778	$111,300	$39,705,422

Local Assistance (Item 275)

The local assistance item contains the funding support for local mental health and state hospital programs. Table 3 identifies the proposed increases in local assistance for 1979–80.

Local Mental Health

The budget proposes General Fund expenditures of $265,397,284 in 1979–80 for local mental health. This is an increase of $26,986,030, or 11.3 percent, over the current year expenditure. However, the 1978–79 amount does not include the $13.3 million reappropriation of savings in 1977–78 resulting from Chapter 332, Statutes of 1978. This amount is reflected in the table showing "Proposition 13 Fiscal Relief for Local Government" on page 1223 of the budget document. When the $13.3 million identified in that table for local mental health programs is included in the

DEPARTMENT OF MENTAL HEALTH—Continued

Table 3
Assistance to Local Agencies, Mental Health Services
1979–80

	(a) State Local Mental Health Services	(b) State-Operated Services	Totals
Base Budget 1979–80	$235,405,998	$116,599,125	$352,005,123
Price Increase	13,679,806	642,409	14,322,215
Merit Salary Adjustment	41,823	744,647	786,470
Employee Benefit Increases	108,826	2,578,679	2,687,505
Licensing Staffing Adjustment	—	375,440	375,440
Chapter 1233/78, AB 3052	3,000,000	—	3,000,000
Special Repairs Adjustment	—	−68,460	−68,460
Section 12.9 Reorganization Adjustment	—	34,700	34,700
Program Changes			
Restoration of Section 27.2 Reductions on CCSS Positions	566,382	—	566,382
Paid Patient Labor Clerk	—	12,776	12,776
Plant Operations Staff	—	260,548	260,548
Warehouse Office Assistant	—	12,776	12,776
Continuation of Reappropriation Funding	12,594,449	—	12,594,449
TOTALS	$265,397,284	$121,192,640	$386,589,929

1978–79 expenditure level, the increase proposed for the budget year over the current year is 5.4 percent, rather than 11.3 percent.

The budget proposes the following 1979–80 major program changes for local mental health:

1. resumption of county contribution;
2. continuation of funding for programs begun in the current year from reappropriated funds;
3. six percent for cost of living; and
4. continued funding of Chapter 1233, Statutes of 1978, which provided $3 million for a new program of residential treatment.

Budget Presentation

The budget presentation for local mental health is misleading. Table 4 showing the funding of the Short-Doyle program is taken from page 720 of the Governor's Budget.

Table 4
Department of Mental Health

Short-Doyle Program	*1977–78*	*1978–79*	*1979–80*
GROSS Program Budget:			
Local programs	$395,815,260	$399,169,025	$457,234,934
State hospitals	96,683,049	117,662,629	121,192,640
Continuing care services	14,771,676	16,033,422	16,813,423
TOTAL, PROGRAM BUDGET	$507,269,985	$532,865,076	$595,240,997
Less:			
Miscellaneous revenues (LP)	−58,484,121	−60,238,645	−65,840,839
Miscellaneous revenues (SH)	−(11,658,007)	−(13,124,988)	−(12,276,004)
Title XX (LP)	−2,221,531	−2,359,692	−2,359,692

Title XX (CCS)	−7,006,919	−6,149,247	−6,149,247
Medi-Cal federal (LP)	−63,311,178	−64,705,076	−66,129,664
Medi-Cal nonfederal (LP)	−16,030,271	−16,906,153	−17,829,894
Medi-Cal (SH)	−(4,205,844)	−(20,151)	−(5,011,079)
Net Program Cost	$360,215,965	$382,506,263	$436,931,661
Less:			
County 10% share (LP)	*−18,776,740*	—	*−22,549,434*
County 10% share (SH)	*−(8,532,734)*	—	*−(9,800,000)*
County 10% share (CCS)	*−776,476*	—	*−1,066,418*
Total, State Funds	$340,662,749	$382,506,263	$413,315,809
Less funds budgeted in the following areas:			
Department of Alcohol and Drug Abuse	−15,212,842	−23,185,194	−23,195,047
Department of Rehabilitation	−672,879	—	—
State Controller	−283,660	−313,660	−313,660
Department of Mental Health (MDO)	−2,454,508	−2,933,526	−3,217,178
TOTAL, DEPARTMENT OF MENTAL HEALTH FUNDS	$322,038,860	$356,073,883	$386,589,924
State share of net (90% match)	175,978,945	186,851,404	212,542,672
State share of Medi-Cal	47,685,860	49,258,691	50,354,989
Patch program	1,086,000	1,374,710	1,573,174
Special contracts	605,006	926,449	926,449
State hospitals—LPS	96,683,049	117,662,629	121,192,640
NET, LOCAL MENTAL HEALTH FUNDS	$322,038,860	$356,073,883	$386,589,924
Local programs	*225,355,811*	*238,411,254*	*265,397,284*
State hospitals	*96,683,049*	*117,662,629*	*121,192,640*

Our concerns with this table are as follows:

1. The budget figures for the current year shown in Table 4 are not accurate for the following reasons:

a. The reappropriation of funds provided in Chapter 332 should be included in this table, but they are not. These funds were actually intended to *augment* local programs. If added to the current year column in Table 4 these funds would increase gross expenditures from $532.9 million to $546.1 million.

b. The "Reconciliation with Appropriations" statement for the Department of Health (page 635 of the Governor's Budget) shows only $11,927,274 available for reappropriation as specified in Chapter 332, not $13.3 million. (We have been assured by the Department of Finance that the full $13.3 million is available.)

c. The table indicates that there will be no county contributions in the current year, apparently as a result of the 10 percent county contribution waiver. The department has informed us, however, that, despite the waiver of financial contribution, 19 counties chose to provide $12.6 million in the current year.

Table 5 shows the counties which provided some matching funds and the amount.

2. Prior year county contributions do not reflect any overmatch (that is, contributions in excess of the required 10 percent) by the counties. In the department's study, "Old Problems, New Directions", the administration identified $9 million in county funds committed to local mental health programs in excess of the mandated 10 percent share.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 5
County Contribution for Local Mental Health
1978–79

County	*December 7, 1978 Verification*
Alameda	$1,043,832
Contra Costa	732,000
Fresno	595,164
Los Angeles	3,000,000
Madera	23,428
Marin	283,029
Merced	87,000
Monterey	216,010
Orange	300,000
Riverside	200,000
Sacramento	618,483
San Diego	1,601,714
San Francisco	1,704,775
San Joaquin	283,733
Santa Clara	1,319,484
Santa Cruz	135,809
Shasta	6,408
Solano	105,328
Ventura	347,536
Total	$12,603,733

In Table 6 we compare local mental health expenditures for the three-year period from the General Fund and county funds utilizing the table in the Governor's Budget adjusted to include actual funding.

Table 6
Local Mental Health
State General Fund and County Fund
Fiscal Years 1977–78 through 1979–80
(in millions)

	1977–78	*1978–79*	*Percent Increase Over Prior Year*	*1979–80*	*Percent Increase Over Prior Year*
General Fund	$225.4	$251.7 [a]	11.7	$265.4	5.4
County Funds	27.8 [b]	12.6	(54.7)	22.5	78.6
Total	$253.2	$264.3	4.4%	$287.9	8.9%

[a] Includes reappropriation of $13.3 million authorized in Chapter 332, Statutes of 1978, rather than $11.9 million shown on page 635 of the budget.
[b] Includes administration's estimate of $9 million county overmatch.

County Contribution

We fully concur with the budget recommendation that the county match requirement in local mental health programs be reinstated, as provided by existing law. We believe the counties must have a financial stake in these programs because (1) the counties are operating the programs and (2) state statutes give the Conference of Local Mental Health Directors approval power over all rules, regulations, and standards adopted by the department (Section 5750 of the Welfare and Institutions Code). We understand legislation revising the state/county partnership is being considered by the department.

Continuation of Reappropriation Funding

We recommend a reduction of $12,594,449 from Item 275 which is budgeted to fund programs started with previously reappropriated surpluses.

Background. On October 18, 1978, in accordance with Item 262 of the Budget Act of 1978, the Director of Finance submitted a proposal for expenditure of $13.3 million from reappropriated funds authorized in Chapter 332, Statutes of 1978, to the Joint Legislative Budget Committee. The letter identified the allocation of the funds as follows:

	Costs Current Year	*Estimated Full-Year Expenditures*
County Proposals	$5,487,299	$8,481,556
Small County Factor	1,412,412	1,412,412
Local Alternative to State Hospitals	2,920,000	2,920,000
Local Multicounty Nonhospital Alternatives to State Hospitals	480,000	480,000
One-Time Projects	2,994,257	—
Totals	$13,293,968	$13,293,968

In a letter to the Director of the Department of Finance, dated November 3, 1978 the Chairman of the Joint Legislative Budget Committee recommended that the following expenditure level be approved for the current year:

County Proposals	$5,487,299
Small County Factor	1,412,412
Local Alternatives to State Hospitals	1,548,443
Local Multicounty Nonhospital Alternatives to State Hospitals	221,060
Total	$8,669,214

We estimated that the cost of continuing this level of program ($8,669,-214) in the budget year would be approximately $10 million.

The Director accepted the recommendation, and $4,624,754 of the reappropriated amount was held in reserve until the department was able to more specifically identify the use of the funds. To date no authorization has been requested for use of the funds.

Nonetheless, the Governor's Budget assumes that the full amount will be used in the current year, as follows:

Category	*1978–79*	*1979–80*
Local Treatment Programs	$8,481,556	$8,990,449
Local In-Patient Hospital Beds	2,920,000	3,095,200
Local Non-Hospital Treatment Beds	480,000	508,800
Small County (County Match)	1,412,412	—
Total	$13,293,968	$12,594,449

Thus, the Governor's Budget projects a 1979–80 expenditure which is $2.5 million above what continuation of current approved program would necessitate.

We see no reason why continuation of these programs should require

DEPARTMENT OF MENTAL HEALTH—Continued

additional General Fund money. Resumption of county financial participation in the budget year, as the budget proposes, should provide the resources necessary to maintain existing programs without requiring an increase in state support. Approval of the requested amount ($12.6 million) would, of course, avoid the need to use county resources for existing programs, and allow these resources to be used for program expansion. However, we are not able to justify expanding the program until the state knows what is being purchased with existing resources.

Cost of Living

We recommend a reduction of $13,679,806 for cost of living in Item 275.

Current year state funding of the local mental health program is $251,711,254, including reappropriation funds. This funding level has no objective base. Historical allocation has provided the foundation for funding of the program.

The department has not evaluated the programs funded by the existing resources despite its commitments during 1978–79 budget hearings to provide information on program effectiveness. There is no evidence that the staff augmentation provided in the current year has improved the evaluation capability of the department.

We do not know what counties, if any, have effective programs. We cannot recommend General Fund cost-of-living increases for programs which may be ineffective and for which no accountability or performance standards exist.

Chapter 1233, Statutes of 1978

We recommend a reduction of $2,250,000 for continuation of the community residential care program. Approximately this amount should be available in 1979–80 from the $3 million appropriation contained in Chapter 1233, for continuation of the program.

Chapter 1233, Statutes of 1978, authorizes community residential treatment as part of the state's community mental health program. A total of $3 million was appropriated for expenditure without regard to fiscal year.

An evaluation of the program is required by December 30, 1980.

The department did not issue instructions to the counties for developing proposals to utilize the $3 million until December 13, 1978. Counties were instructed to submit proposals to the department by January 10, 1979. The funds are to be allocated by mid-February. We expect that projects will begin no earlier than March 1, 1979.

The budget anticipates that the full $3 million appropriation contained in Chapter 1233 will be spent during the current year. The budget therefore requests an additional $3 million to continue the program in 1979–80.

We do not believe that the department can effectively expend the existing $3 million in the current year given the delay in issuing instructions and current fiscal constraints at the county level. We estimate only $750,000 can be spent in the current year, leaving $2,250,000 available for expenditure in 1979–80. Thus, $750,000 in new General Fund money would be necessary to continue the program at the $3 million level.

We do not believe the $3 million funding level should be increased until an evaluation of this new program is performed as required by Chapter 1233.

Finally, this program is envisioned as an alternative to institutionalization. Thus, funds for inpatient programs such as state hospitals should be available for diversion to the residential treatment program.

State Assumption of County Program

We recommend enactment of legislation setting forth the state's policy toward counties choosing to withdraw from the Short-Doyle program.

In spite of the fact that the Legislature waived the required 10 percent county contribution to local mental health, the Amador County Board of Supervisors elected to discontinue delivery of mental health services by the county effective July 1, 1978. In response to this action, the department immediately assumed responsibility for the county's mentally ill, and contracted directly with persons previously employed by the county to continue provision of services.

However, the staff were not moved from county leased facilities, no funds were provided for operating expenses and top level departmental management did not become involved until four months after the assumption of the program.

The legality of the department's action is unclear. The department contends that because statutes did not prohibit state assumption of a county program, the action was not illegal. The Legislative Counsel, however, provided us with an opinion stating:

"The State Department of Mental Health may not contract directly with providers in a county for mental health services if the board of supervisors of the county has chosen not to participate in the Short-Doyle Act."

In light of legal uncertainty and what we consider to be the department's poor performance following the Amador County takeover, we believe the Legislature should specifically address the issue raised by Amador County's action, and enact legislation, if warranted, to establish state policy in this area. It is important that this be done because other counties are likely to take action similar to Amador County.

Continuing Care Services

Included in the local mental health subitem is the General Fund support of the continuing care services program. State staff provide this service to most of the counties. However, county staff provide follow-up and continuing care services in 23 counties.

Title XX

We recommend Budget Items 275 and 287 be revised so that the proposed allocation of federal Title XX funds to the Department of Mental Health be replaced by General Fund support.

The Department of Social Services is the single state agency charged with administration of federal Title XX/social services funds awarded to the state. Through interagency agreements, these funds are often provided to other state departments. The Department of Mental Health funds part of continuing care services for the mentally disabled through

DEPARTMENT OF MENTAL HEALTH—Continued

Title XX.

We believe that limiting the number of state agencies receiving Title XX funds will result in significant administrative efficiencies. This issue is discussed in the Analysis of the Department of Social Services for Item 287.

Although transferring the Title XX funds out of the Department of Mental Health will result in elimination of the Title XX eligibility and performance standards, such criteria could be established in regulation by the department.

In our view, the advantages of not using Title XX funding in this department outweigh the disadvantages. It would eliminate excessive paperwork, a concern of the continuing care staff. The staff of this department would no longer be involved in the preparation of the Title XX Plan which is a time consuming function. The department would be better able to provide emergency treatment through continuing care staff without risking an audit exception. (Title XX does not allow treatment with these funds). This redirection should not affect total funds available to the department's programs.

Because existing law covering fiscal year 1979–80 requires that any General Fund dollars allocated to county mental health programs be matched by 10 percent in county funds, we recommend that Budget Act language be added to Item 275 exempting counties from having to provide a match for these redirected funds. (As recommended above, they would have to match the balance of allocations from the General Fund.) In this way, counties will not be penalized for a funding transfer at the state level.

Section 27.2 Restoration

We recommend a reduction of $566,832 from Item 275 which is budgeted to restore community care services positions which were reduced pursuant to Control Section 27.2 of the 1978 Budget Act. A corresponding reduction in Item 273(a) and (c) would result along with position reductions.

The budget proposes that of the $1,000,000 reduced in the current year in accordance with Section 27.2 of the Budget Act of 1978, $566,382 be restored in 1979–80 in "order to maintain case carrying positions providing services to mentally disabled clients in the community."

There is no workload standard for this activitiy. Based upon the data provided in the Governor's Budget, the ratio of cases to staff appears to be approximately 30:1. Departmental staff, however, indicate the actual ratio is 50:1, and that the budget is in error. A similar function in the Department of Developmental Services is budgeted using an established 67:1 ratio.

We cannot support an augmentation in staffing for this activity in the absence of an established workload standard. While we realize that the provision of continuing care for the developmentally disabled is not the same as the provision of continuing care for mentally disabled persons, we believe that standards such as those in the Department of Developmental Services are necessary in the Department of Mental Health. Without clear justification for additional staff, we see no basis for providing the requested increase.

State Hospitals (Item 275(b))

The 1979–80 budget for state hospitals for the mentally disabled is $121,-912,640, an increase of $3,530,011 or 3 percent from fiscal year 1978–79. This projection is based upon a continually declining inpatient population. However, because of the existing policy which allows funds for the Short-Doyle client to "follow" the client from the hospital to the community and vice versa, the state hospital item includes an amount of $2,668,897 for "transfer to local mental health programs for state hospital reductions." This is the first year that this transfer has been specifically identified in the budget. An extensive discussion of the entire state hospital system is contained in the analysis of the Department of Developmental Services, Item 271.

Population Projections

We recommend that control language similar to Section 28.3 for the Department of Social Services and Health Services be added to the budget requiring the Departments of Developmental Services and Mental Health to periodically submit assumptions underlying state hospital population projections to the Department of Finance for approval prior to development and use of these projections. Both assumptions and projections should also be forwarded to the Legislature for review.

We believe there should be more careful scrutiny of state hospital population projections because of the frequent revision of these projections and the important role they play in both staffing and capital outlay requirements. Table 7 provides a comparison of projections upon which funding has been based in the past.

Table 7

Comparison of Total MD[a] State Hospital Population Projections

Year Ending June 30	*Original Item 390 Projection April 1977*	*390 Update Of 5/15/78*	*Revised 390 Update Of 10/2/78*	*Governor's Budget[b]*
1978	5,209	5,345	5,233	5,124
1979	4,956	5,424	4,976	5,111
1980	4,703	5,288	4,836	4,911
1981	4,449	5,215	4,626	—
1982	4,059	5,195	4,486	—
1983	3,669	5,183	4,349	—
1984	3,279	5,183	4,262	—
1985	2,890	5,183	4,175	—

[a] Includes both Lanterman-Petris-Short and judicially committed.
[b] The Governor's Budget does not project hospital population beyond June 30, 1980.

The original projection (Table 7, second column) developed in 1977 was the basis for capital outlay funding of environmental, fire and life/safety improvements. The May 15 update (third column) was the basis of a federal threat to decertify the state's hospitals if additional improvements in the hospitals were not made. The October 2, 1978 projection (fourth column) was used as the basis for allocating $820,000 in emergency funds

DEPARTMENT OF MENTAL HEALTH—Continued

to prevent decertification. The Governor's Budget is premised on yet another set of projections.

Because of the disparity of licensing and 1973 staffing standards, the Legislature requested a study to correlate these different standards in both supplemental language and ACR 103. The departments are expected to furnish a report to the Legislature by January 31, 1979. Although we have not seen the study, all indications are that staffing augmentations will result. The budget contains no funds for enrichment of staff.

Medi-Cal Reimbursements

We recommend elimination of 3.6 positions for Medical Assistance Units at the hospitals for the mentally disabled for a savings of $51,843 in Item 261.

The Governor's Budget proposes $2,903,300 in reimbursements from the Medi-Cal program, consisting of $2,799,613 in hospitals for developmentally disabled and $103,687 for mentally disabled. These reimbursements support separate units identified in each of the hospitals. These units were initially established to perform functions required by federal regulation to comply with Medi-Cal standards. Over time the functions were either absorbed by Medi-Cal field staff or federal requirements were met throughout the hospitals as a result of certification review. The positions were never abolished and the Medi-Cal program continued to be billed for the positions.

Eliminating the Medi-Cal reimbursements appears to be in order because (1) staff are not performing strictly Medi-Cal functions, (2) the Medi-Cal rate is intended to cover all treatment staff, and (3) the need for a separate Medi-Cal unit is no longer apparent. Budgeting for reimbursements which will, in all probability, be disallowed is imprudent.

Further, in informal discussions with Department of Health Services licensing staff, we determined that these units are not included in level of care reviews and there is some question about the units' function. Staff from these units are being utilized for such functions as nurse of the day. Licensing review does not encompass these units and elimination of the units would not jeopardize certification. Therefore, we recommend elimination of these units. Eliminating both the expenditures and reimbursements associated with these units does not impact the General Fund. However, the Medi-Cal item, Item 261, would experience a $51,843 General Fund reduction.

Department of Mental Health
LEGISLATIVE MANDATES

Item 276 from the General Fund — Budget p. 720

Requested 1979–80	$313,660
Estimated 1978–79	313,660
Actual 1977–78	NA
Requested increase—None	
Total recommended reduction	$15,000

ANALYSIS AND RECOMMENDATIONS

We recommend a reduction of $15,000.

This item proposes an appropriation of $313,660 for legislative mandates consisting of $283,660 for local costs imposed by Chapter 1061, Statutes of 1973 and $30,000 resulting from Chapter 1039, Statutes of 1978. These funds are to be allocated by the State Controller as provided in Section 2231 of the Revenue and Taxation Code.

Chapter 1061 relates to review and submission of county Short-Doyle plans, and Chapter 1039 provides for payment of court and related costs for mentally disordered sex offender recommitment trials.

The provisions of Chapter 1039 expire on January 1, 1980, so that funding for six months of 1979–80 is all that is necessary. The budget, however, includes funds for the full year. We therefore recommend a $15,000 reduction.

Health and Welfare Agency
EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 277 from the General Fund, Item 278 from the EDD Contingent Fund, and Item 279 from the Unemployment Compensation Disability Fund — Budget p. 728

Requested 1979–80	$54,774,577
Estimated 1978–79	48,865,009
Actual 1977–78	44,539,822
Requested increase $5,909,568 (12.1 percent)	
Total recommended reduction	$5,308,074

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
277	Employment Development Department	General	—
277(a)	Work Incentive Program		$4,731,297
277(b)	Service Center Program		4,805,765
277(c)	Office of Economic Opportunity		155,500
277(d)	Job Agent Program		1,952,089
277(e)	Youth Employment and Development		5,000,000
277(f)	Cooperative Education and Job Program		5,000,000
277(g)	Contractors Law Enforcement Program		308,074
Total	Item 277		$21,952,725
278	Pro Rata Charges	EDD Contingent	4,047,728
279	Support DI Operations	Unemployment Compensation Disability	28,774,124
Total			$54,774,577

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Client and Contractual Services. Reduce Item 277(n) by $57,942 (Federal funds). Recommend a reduction of funds to correct overbudgeting for Client and Contractual Services. 710
2. *Public Employee Layoffs.* Recommend that the Employment Development Department (EDD) identify unspent Public Works Employment Act (PWEA) Title II funds requested for the Displaced Public Employees Project and transfer the funds to the PWEA Administrative Fund for reallocation to other state projects. 711
3. *Evaluation and follow-up of WIN.* Recommend that EDD submit evaluation and follow-up study designs for WIN program job components. 712
4. *Follow-up of Successful Placements.* Recommend that EDD submit a follow-up and evaluation study design which would track and evaluate successful service center program participants over a six month period, and establish pilot projects with the Department of Education. 714
5. *Youth Employment Project Evaluation.* Recommend that Budget Bill language be added to General Fund Item 277(e) which would require that EDD complete evaluations of all existing state funded youth employment projects before any General Funds in this subitem can be expended during 1979–80. In addition EDD should report to the Joint Legislative Budget Committee the findings of these evaluations, how the budgeted funds will be expended and how these programs interrelate with other state and federal programs for youth employment. 728
6. *Cooperative Education and Job Training Program. Reduce* 731

Item 277(f) by $5 million. Recommend deletion of funds proposed for the Cooperative Education and Job Training program.

7. *Contractors Law Enforcement Program. Reduce Item 277(g) by $308,074.* Recommend a deletion of funds proposed for permanently establishing the Contractors Law Enforcement program. 731

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 the state Economic Opportunity Office, for collecting three state payroll taxes and for the redetermination computation of unemployment insurance and disability insurance disputed benefit payments.

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval of Items 277(a), (b), (c), (d) and Items 278 and 279 as budgeted.

The proposed state support for the department in 1979–80 is $54,774,577. This is an increase of $5,909,568, or 12.1 percent, over the estimated current year expenditures. The state support consists of $21,952,725 from the General Fund in Item 277, $4,047,728 in Item 278 from the EDD Contingent Fund and $28,774,124 in Item 279 from the Unemployment Compensation Disability Fund.

The total proposed budget, including federal funds, is $2,249,525,341. This is a decrease of $36,288,506, or 1.6 percent, from estimated expenditures in the current year. The decrease results from a reduction in Public Works Employment Act (PWEA) Title II funds of $76,327,567, or 94.9 percent, brought about by Congress' refusal to extend the PWEA program for the 1979 federal fiscal year. There is also an anticipated decrease of $5,849,240, or 18.3 percent, in the Comprehensive Employment and Training Advisory Council and Office. The transfer of Contingent Surplus Funds expenditures to the Unemployment Insurance Fund is expected to be reduced 68.4 percent, or $4,628,255. These decreases are partially offset by a $26 million increase in Disability Insurance costs due to the increased level of benefits, a $2.5 million increase in the Youth Employment and Development Act of 1977, and $5 million for the newly proposed Cooperative Education and Job Program.

Table 1 shows expenditures, by source of funding and by program, for fiscal years 1978–79 and 1979–80.

Tabl

Total Estimated and Proposed Expenditure

Fiscal Year 1978

	General Fund in Item 277			*Federal Funds in Item 277*			*Emp Dev Dept Contingent Funds in Item 277*
	1978-79	*1979-80*	*Percent Change*	*1978-79*	*1979-80*	*Percent Change*	*1978-79*
Employment Services Program	—	—	—	$65,314,475	$67,482,024	+3.3%	$596,258
Food Stamp Program	—	—	—	2,794,999	2,883,474	+3.2	—
Work Incentive (WIN) and Related Services Program	$4,448,616	$4,731,297	+6.3	40,164,911	42,581,673	+6.0	249,343
Service Center Program	4,660,665	4,805,765	+3.1	—	—	—	—
Job Agent Program	1,880,683	1,952,089	+3.8	—	—	—	—
California Employment and Training Program	—	—	—	36,766,635	35,150,218	−4.4	—
Balance-of-State Program	—	—	—	69,381,770	69,445,671	+.1	—
Comprehensive Employment and Training Program	—	—	—	17,001,576	10,217,929	−40.0	—
Public Works Employment Act (Title II)	—	—	—	80,459,606	4,132,039	−94.9	—
Unemployment Insurance Program	—	—	—	1,356,265,383	1,369,097,607	+.9	1,203,224
Disability Insurance Program	—	—	—	—	—	—	—
School and Government Employees Program	—	—	—	—	—	—	—
Migrant Services Program	3,900,203	—	—	100,000	—	—	—
State Office of Economic Opportunity (SOEO)	155,500	155,500	—	7,727,989	5,261,922	−32.0	—
Youth Employment and Development Act, 1977	4,764,569	5,000,000	+4.9	—	—	—	—
Personal Income Tax (PIT)	—	—	—	—	—	—	—
Contract Services	—	—	—	—	—	—	—
Administrative Staff and Technical Services	—	—	—	—	—	—	—
Legislative Mandates	—	—	—	—	—	—	—
Transfer of Contingent Fund Surplus Funds	—	—	—	—	—	—	6,766,972
Former Inmates Benefits Program	—	—	—	—	—	—	—
Cooperative Education and Job Program	—	5,000,000	—	—	—	—	—
Contractors Law Enforcement Program	—	308,074	—	—	—	—	—
Totals	$21,649,236	$22,952,725	+4.2	$1,675,977,344	$1,606,252,557	−4.2	$8,815,797

e 1

s for Employment Development Programs

–79 and 1979–80

Emp Dev Dept Contingent Funds in Item 277		*Reimbursements in Item 251*			*Other*			*Total*		
1979–80	*Percent Change*	*1978–79*	*1979–80*	*Percent Change*	*1978–79*	*1979–80*	*Percent Change*	*1978–79*	*1979–80*	*Percent Change*
$1,177,987	+97.6%	—	—	—	—	—	—	$65,910,733	68,660,011	+4.2%
—	—	—	—	—	—	—	—	2,794,999	2,883,474	+3.2
492,610	+97.6	$2,936,488	$2,937,967	+0.5%	—	—	—	47,799,358	50,743,547	+6.2
—	—	—	—	—	—	—	—	4,660,665	4,805,765	+3.1
—	—	—	—	—	—	—	—	1,880,683	1,952.089	+3.8
—	—	22,800,000	26,400,000	+15.8	—	—	—	59,566,635	61,550,218	+3.3
—	—	—	—	—	—	—	—	69,381,770	69,445,671	+.1
—	—	14,962,074	15,896,481	+6.2	—	—	—	31,963,650	26,114,410	−18.3
—	—	—	—	—	—	—	—	80,459,606	4,132,039	−94.9
2,377,131	+97.6	—	—	—	—	—	—	1,357,468,607	1,371,474,738	+1.0
—	—	322,377	332,250	+3.0	$499,824,767	$526,221,624	+5.3%	500,147,144	526,553,874	+5.3
—	—	—	—	—	26,006,708	30,829,783	+18.5	26,006,708	30,829,783	+18.5
—	—	938,000	—	—	—	—	—	4,938,203	—	—
—	—	347,950	350,000	+.6	—	—	—	8,231,439	5,767,422	+30.0
—	—	—	—	—	—	—	—	4,764,569	5,000,000	+4.9
—	—	8,622,031	9,060,631	+5.1	—	—	—	8,622,031	9,060,631	+5.1
—	—	1,454,001	1,342,647	−7.7	—	—	—	1,454,001	1,342,647	−7.7
—	—	—	—	—	—	—	—	(21,500,752)	(21,508,354)	+.0
—	—	—	—	—	—	—	—	1,839,000	600,000	−67.4
2,138,717	−68.4	—	—	—	—	—	—	6,766,972	2,138,717	−68.4
—	—	1,157,074	1,162,231	+.4	—	—	—	1,157,074	1,162,231	+.4
—	—	—	—	—	—	—	—	—	5,000,000	+100.0
—	—	—	—	—	—	—	—	—	308,704	+100.0
$6,186,445	−29.8%	$53,539,995	$57,482,207	+7.4%	$525,831,475	$557,051,407	+6.0%	$2,285,813,847	$2,249,525,341	−1.6%

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Client and Contractual Services

We recommend that Item 277(h) be reduced by $57,942 to correct overbudgeting for client and contractual services.

The budget includes $499,953 for legal services to the department and the Unemployment Insurance Appeals Board from the Department of Justice. The proposed expenditure is based on 11,736 hours of legal services at an hourly rate of $42.60.

However, in examining the Department of Justice's proposed budget, we found that: (1) the department has allocated only 10,887 hours, not 11,736, in legal services to EDD and the UI Appeals Board, and (2) the price letter indicates charges for legal services performed by the Office of the Attorney General will be $40.60 per hour, not $42.60, during the budget year. Using these data, estimated expenditures for legal services to EDD and the UI Appeals Board will be $442,011 in the budget year, or $57,942 less than the amount budgeted. Accordingly, we recommend the excess be deleted from Item 277(h).

EMPLOYMENT SERVICES PROGRAM

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

The Employment Services (ES) program is funded through a federal grant of which about 15 percent is from federal general revenues and 85 percent is from federal unemployment insurance taxes levied on employers. The budget proposes $68,660,011 for support of employment services in 1979–80. This is an increase of $2,749,278 (4.2 percent) over estimated expenditures in the current year.

The U. S. Department of Labor (DOL) distributes employment services funds among the states according to the Resource Allocation Formula (RAF). The RAF uses 20 input variables, requiring 66 separate pieces of data for each state from the Employment Security Automated Reporting System (ESARS) in allocating funds to states. Each year this formula is revised by the Employment and Training Administration (ETA) in an effort to balance needs and resources of the states. However, many employment service agencies are dissatisfied with the RAF process because it complicates and confuses statewide employment services planning. The department has indicated that the federal government will discontinue use of the RAF in subsequent fiscal years.

Table 2 illustrates, for three fiscal years, the output elements of the Employment Service program.

Table 2
Output Elements of ES Fiscal Year 1975–76 to 1977–78

	1975–76	*1976–77*	*1977–78*
New Application and Renewals	1,408,760	1,483,895	1,258,221
Individuals Placed	331,205	389,576	406,762
Placement Transactions	488,934	565,376	602,192
Inactive	1,335,343	1,472,394	1,447,736
Some Service Provided	714,898	802,364	959,264
% Total	53.5	54.5	66.3
No Service Provided	620,446	670,031	488,472
% Total	46.5	45.5	33.7

Public Employee Lay-Offs

We recommend that the Employment Development Department identify the unspent Public Works Employment Act (PWEA) Title II funds requested for the Displaced Public Employees Project and transfer them to the PWEA Administrative Fund for reallocation to proposed state projects.

The Director of Finance approved the expenditures by EDD of $2,707,440 in PWEA Title II funds during the current year to provide employment services to displaced public employees, under the authority of Section 28, Budget Act of 1978. These services include job search workshops, reemployment and relocation assistance, institutional training and on-the-job training. The department had estimated that approximately 26,000 public employees would be laid off during the current year as a result of the passage of Proposition 13.

Due to the passage of SB 154 (Chapter 292, Statutes of 1978), the total number of public employees estimated to require services will total approximately 5,000. Consequently, the need to expend all of the $2.7 million during the current year has not materialized. As of December 1, 1978, EDD has expended an estimated $446,354 of the funds allocated.

The department has indicated that approximately 15,000 public employees registered with EDD for UI benefits. However, information has not been provided by the department on the total number of public employees unemployed or the number receiving employment services.

The Governor proposes that the Legislature enact a local assistance relief measure providing $4.4 billion in 1979–80. Based on public employee lay-offs in the current year, and the level of funds proposed for local fiscal relief in 1979–80, we believe that public employee lay-offs resulting from Proposition 13 will not be significant in the budget year. Therefore, we see no need to continue the displaced Public Employees Project and recommend that the department identify the unspent PWEA Title II funds allocated to the project and transfer these funds to the PWEA administrative fund where they may be reallocated to other state projects.

Food Stamp Program

All potentially employable applicants for food stamps are required to register for employment with EDD. The department is responsible for providing referrals to jobs and training, counseling or job agent services, and job search workshops. To remain eligible for food stamps, registrants

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

must accept referral to appropriate job openings.

This program is fully funded by the federal government. The 1979–80 budget of $2,883,474 is an increase of $88,475, or 3.2 percent, over the estimated expenditures in the current year. This will fund 134 positions.

Work Incentive Program (WIN)

The Work Incentive (WIN) program is designed to provide employment and training services to employable recipients of Aid to Families with Dependent Children (AFDC). With specified exceptions, employable members of AFDC families must register for the WIN program with EDD to remain eligible for aid. The primary purpose of the program is to reduce dependency on public assistance.

The WIN program is funded 90 percent by federal funds and 10 percent from the General Fund. Proposed expenditures for 1979–80 are $50,743,547, an increase of $2,944,189, or 6.2 percent, over the estimated current year expenditures, of which $42,581,673 is the federal share and $4,731,297 is the General Fund share. Included in the General Fund share is a proposed increase of $199,013 for expansion of employment and training programs.

Evaluation and Follow-up of WIN

We recommend that the Employment Development Department submit an evaluation and follow-up study designs aimed at assessing (1) the effectiveness of the 50 percent on-the-job training (OJT) reimbursement, (2) the cost-effectiveness of OJT, WIN-Career Opportunity Development (COD), and work experience components, and (3) utilization of the intensive manpower services component, to the Joint Legislative Budget Committee by July 1, 1979.

The seven basic WIN components are:

1. *WIN Institutional Training.* This component provides for vocational training through public or private facilities when it is determined that a WIN participant cannot become job-ready without some basic educational assistance.

2. *Work Experience.* A WIN participant may be placed in an unsalaried job training position for exposure to work experience and some skill training.

3. *WIN-OJT.* The WIN participant may be placed in a regular employment situation in which the employer is reimbursed for portions of the costs of training the employee (up to 50 percent of the wages).

4. *WIN-COD.* This is a special California Public Service Employment (CPSE) project administered by the State Personnel Board and EDD. WIN-COD places participants in state and local government civil service positions. The full salary costs to the hiring agencies is reimbursed by the program for periods of up to one year.

5. *WIN-PSE* (Public Service Employment). This program is being phased out during the current year. Thus, funds are not provided in the budget year.

6. *Intensive Manpower Services.* This component is designed to provide WIN participants with specific help in terms of job development and

job-seeking techniques. It is administered primarily through the use of group job-finding workshops.

7. *Participation in Other Programs.* A WIN participant may be referred to another employment and training program such as programs under the Comprehensive Employment and Training Act (CETA).

Table 3 shows the expenditure levels for these components from 1976–77 through 1979–80.

Table 3
WIN Component Expenditure Levels
Fiscal Years 1976–77 to 1979–80

	76–77	*77–78*	*78–79*	*79–80*
OJT	$3,788,362	$5,644,671	$8,522,180	$9,035,019
WIN-COD	3,355,867	4,729,917	6,000,000	7,000,000
PSE	2,650,883	3,013,183	95,250	—
Institutional Training	1,019,632	740,003	690,030	394,659
Other	(2,041)	76,506	75,850	75,850
Allowances	5,287,648	5,465,991	6,513,500	7,424,472
Employment Related Services	827,761	300,000	350,000	350,000
Total	$16,928,112	$19,970,271	$22,246,810	$24,280,000

For several years this office has noted that the quality of evaluation systems for manpower programs is not adequate. The evaluation system used for the WIN program is a prime example of this deficiency. Despite the fact that various studies have been conducted and considerable data have been collected regarding the program, it is still virtually impossible to assess the quality and impact of each of the seven WIN components. In an effort to remedy this we previously recommended that during calendar year 1977, EDD thoroughly review and evaluate the WIN program and present its findings and recommendations for improving the program to the Legislature.

While the report provided better insight into the different program components, it did not address (a) the effectiveness of utilizing the 50 percent training OJT reimbursement as opposed to a lower rate, (b) the cost-effectiveness of OJT, WIN-COD, and work experience components, and (c) the utilization of intensive manpower services. The Legislature needs an evaluation mechanism addressing these dimensions of the program in order to carry out its oversight responsibilities. Therefore, we recommend that the department submit evaluation and followup study designs which address these dimensions of the program to the Joint Legislative Budget Committee by July 1, 1979.

SERVICE CENTER PROGRAM

There are eight service centers in California, located as follows: San Francisco, Richmond, the Avalon district of Los Angeles, south central Los Angeles, east Los Angeles, San Diego, east Fresno and west Fresno. The Service Center program, which is administered through these centers, seeks to facilitate more effective coordination, development and improvement of employment-related services to residents in these areas. The goal

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

of the program is to assist the clients of the centers to reach their full potential of economic self-sufficiency. Approximately 90 positions provide direct employment-related services to a specific number 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 1979-80 include the successful closure of 5,883 cases.

The budget request for this program (Subitem 277(b)) is $4,805,765, which is an increase of $145,100, or 3.1 percent, over estimated expenditures in the current year. The program is totally supported from the General Fund. *We recommend approval.*

Follow-up of Successful Closures

We recommend EDD submit a follow-up and evaluation study design which would track successful closures over a six month period, and assess the quality and long-range impact of job placements, to the Joint Legislative Budget Committee and appropriate fiscal committees by April 1, 1979.

We further recommend that EDD and the Department of Education establish a pilot project which sets aside a specific number of vocational education course slots for service center clients.

As noted above, for a case to be classified as a successful closure, the client must have been placed in a job through the program and must have remained employed for at least 30 days. Unfortunately, there is little information as to the employment status of service center participants after the 30 day time period that could shed light on the duration of program placements. This is a key criterion in assessing the impact of any program aimed at improving the long term employment and earnings of the structurally unemployed.

Therefore, we recommend that the department submit to the Joint Legislative Budget Committee and the appropriate fiscal committees by April 1, 1979 a follow-up and evaluation study design which would track successful closures over a six month period and assess the quality and long range impact of job placements. This design should be incorporated into the program planning process.

A lack of job skills is the most often reported barrier to the employment of service center clients, indicating that many of these clients could benefit from employment training. However, although various vocational education providers are located in the immediate area of these service centers, there are no formal linkages between the providers and the centers. Because job training appears to be especially desirable for service center clients, we recommend that the Departments of Employment Development and Education establish a pilot project in three geographical areas where service centers and educational providers operate programs. This project would set aside a specific number of course slots in vocational education programs for service center clients.

JOB AGENT PROGRAM

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

The budget proposes a General Fund appropriation of $1,952,089 in Subitem 277 (d) for the job agent program which is an increase of $71,406, or 3.8 percent, over the current year estimated expenditures. The proposed budget would continue support for 58 job agent positions and 13 supportive staff. In addition, case service funds of $110,000 would be available to assist clients experiencing financial emergencies by helping to remove barriers to employment, such as tools, transportation and housing.

In field visits and discussions with department staff, we found that (1) many job agents do not give priority to those seeking employment who are referred by EDD, (2) job agents have often developed their own client referral system outside of EDD and (3) supervision of the job agents continues to be a problem because in many EDD local offices, the only person able to supervise the job agent is the local field office manager. Furthermore, we were unable to identify the criteria utilized in determining which clients would be referred to the service center program or to the job agent program.

In the job agent program, a successful closure results when a client remains in continuous employment for a period of 180 days (six months). The department is studying the impact of reducing the 180-day standard for successful closure so that job agents can increase the number of clients served. Also, the department will be streamlining job agent reporting systems to allow job agents to spend more time on employment-related services.

COMPREHENSIVE EMPLOYMENT AND TRAINING PROGRAM

Under the Comprehensive Employment and Training Act (CETA) of 1973, the federal government provides assistance for locally administered employment and training programs. Under the act, block grants are made to 36 local government prime sponsors in California and to the state government in its capacity as prime sponsor for the "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 combinations of local units which join together as a consortium.

Prime sponsors 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.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

CETA funds 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. Specific CETA programs include: on-the-job training by private employers; work experience and classroom training programs for in-school youth, and adults; public service employment; summer employment for economically disadvantaged youth; and a variety of other more narrowly focused efforts. Table 4 shows the amounts of CETA funds allocated to California since the inception of the program.

Table 4
CETA ALLOCATIONS TO CALIFORNIA

	1974–75	*1975–76*	*1976–77*	*Federal Transitional Quarter*	*1977–78*	*1978–79*[c]	*1979–80*[c]
Title I	None[a]	$158,723,409	$167,296,764	$39,964,946	$187,007,301	$186,915,000	$207,795,000
Title II	$64,769,414	57,807,788	225,808,525[b]	13,980,738	19,480,234	174,207,000	277,933,000
Title VI	N/A	131,408,923	204,878,918	None	116,861,552	706,374,000	464,118,000
Summer Jobs	None[a]	44,375,404	52,768,554	None	60,807,651	80,246,000	75,339,000
Fiscal Year Totals	$64,769,414	$393,315,524	$650,752,761	$53,945,684	$384,156,738	$1,147,742,000	$1,025,185,000
Grand Total							$3,719,867,121

[a] Funded under MDTA authorities.
[b] Includes $66,969,285 regular and $158,839,230 supplemental.
[c] Fiscal years 1978–79 and 1979–80 are rounded off.
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.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The department will receive an estimated $14,962,074 during the current year and $15,896,481 in the budget year from prime sponsors through these contractual arrangements. In addition to the reimbursement from prime sponsors, the department will receive federal reimbursements of $2.4 million for services rendered under various CETA programs which are funded directly by the Department of Labor. These funds will be used for (1) recruiting and enrolling disadvantaged young males to fill California's quota of openings in the federal Job Corps program, (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.

The Disabled Veterans Outreach Program (DVOP), through the hiring of disabled Vietnam-era veterans, provides outreach and employment services to disabled veterans. The program is budgeted at $2,502,437 for fiscal year 1979–80, a decrease of $180,529. In addition, EDD will receive an estimated $5,298,414 in federal funds for 1979–80 to operate a Young Adult Conservation Corps Program (YACC). These monies will be subcontracted to the California Conservation Corps which will operate the YACC program in conjunction with its regular program.

Table 5 shows the program element, costs and source of funding for EDD's Comprehensive Employment and Training Program for fiscal years 1977–78 to 1979–80. The budget year decrease of $5,849,240, or 18.3 percent, results from a reduction in Element 6 in Table 5.

Table 5
Program Elements of EDD's Comprehensive Employment and Training Programs

Element	*1977–78*	*1978–79*	*1979–80*	*Sources of Funding*
1. Comprehensive Manpower Services	$13,329,680	$14,962,974	$15,896,481	Prime sponsors
2. Job Corps	879,479	1,113,653	1,148,520	CETA Title IV
3. Managers of Employment and Training	350,893	379,398	390,718	NAB
4. Labor Market Information	785,032	850,478	877,840	CETA Title III
5. Disabled Veterans Outreach	2,679,870	2,682,966	2,502,437	Federal Project Funds
6. Young Adult Conservation Corps	—	11,975,081	5,298,414	CETA Title VIII
Total	$18,042,954	$31,963,650	$26,114,410	

Balance of State Programs

The CETA Balance-of-State (CBOS) office acts as the prime sponsor for CETA programs in those counties that are too small to qualify as prime sponsors. The CBOS office administers the program through local planning councils in each of the 28 counties. The CBOS office expects to receive $69,445,671 in federal funds during the budget year.

Table 6 shows the program element costs for the CBOS employment and training programs over a three-year period.

Table 6
Program Elements of California Balance of State Employment and Training Program

		1977–78	1978–79	1979–80
A.	Title II—Balance-of-State Employment and Training Programs	$9,188,859	$9,117,914	$9,154,891
B.	Title II—Public Service Employment	10,599,722	10,748,375	10,760,303
C.	Title IV—Summer Youth Programs	1,990,676	1,994,238	1,998,498
D.	Title IV—Youth Employment and Demonstration Projects	6,993,743	6,983,437	6,985,227
E.	Title VI—Emergency Employment Act	40,690,521	40,537,806	40,546,752
	Totals	$69,463,521	$69,381,770	$69,445,671

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 1979–80 budget proposes an expenditure of $61,550,218, which is an increase of $1,982,583, or 3.3 percent, above current year expenditures.

The office coordinates the Public Service Employment Programs (PSE) of various state agencies which are funded through CETA prime sponsors. The office estimates that expenditures under the Public Service Employment program will be $23.2 million in the current year and $26.8 million in the budget year. In addition, the office administers the Youth Employment and Demonstration Project Act of 1977 (Title IV) which is designed to establish programs aimed at having a significant long-term impact on unemployed youth. The budget proposes expenditures of $7,971,766 in the current year and $6,370,077 in the budget year for the youth program.

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

The 4% Discretionary Model and Demonstration Program

This program provides training and employment to eligible individuals. The CAL-ETA office has begun to compile data on 4% projects so that funds can be directed to successful employment and training programs. We are supportive of this effort.

Coordination of State Manpower Services

The Legislature adopted supplemental report language to the 1978 Budget Act directing the state CAL-ETA Office to submit a report identifying methods and recommendations for coordinating state manpower services and employment-related economic development programs, to the Joint Legislative Budget Committee by December 1, 1978. The report was not received in time to permit a review of its findings and recommendations in this analysis. However we will discuss this report during budget hearings.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

PUBLIC WORKS EMPLOYMENT ACT

The purpose of the federal Public Works Employment Act of 1976 (PWEA) is to stimulate economic recovery by providing fiscal assistance to state and local governments. Title II of the Act is designed as an antirecession 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) funds 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 reflects a major decrease in Title II funds—from $80,459,606 in the current year to $4,132,039 in the budget year, a decrease of 94.9 percent. This is due to Congress' refusal to extend the PWEA Title II program for another year. There is a possibility that some Title II funds may be made available during the budget year if projects presently funded do not expend all the money allocated to them.

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 proposed UI budget of $1,371,474,738 for 1979–80 is approximately $14 million, or 1 percent more than anticipated current year expenditures. The bulk of the increase is in benefit payments. The cost of administering the program is projected at $123,474,738, which is an increase of $6,822,357, or 5.8 percent, above the 1978-79 level.

The UI regular benefit duration is limited to 26 weeks. During periods of high unemployment, Congress has extended entitlement for up to 65 weeks. Regular benefits are paid through the State Unemployment Fund, while extended benefits are paid 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 during economic growth periods. The tax rate on an individual employer is based on the amount of benefits paid to the employer's employees.

Unemployment Fund Balance

Table 7 shows the fund balance in the Unemployment Fund at the end of each calendar year, the relation between the balance of total and taxable wages paid in covered employment, and the total income and expenditures of the fund from 1968 through 1978.

The taxable wage base represents that portion of each employee's annual wage on which employers must pay the UI tax. Since 1976, the taxable wage base has been $7,000.

Table 7

Unemployment Fund Balance and Total Income and Expenditures

Calendar year	*Fund balance End of year*	*Fund balance as percentage of wages*		*Total income*[a]	*Expenditures*[b]	*Benefits as a percentage of current employer taxes*
		Taxable	*Total*			
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	639,190,101	1.6	0.9	1,381,674,432	1,290,760,735	93.4
1977	1,089,717,955	2.5	1.4	1,616,147,221	1,165,468,947	72.1
1978 (est)	1,732,000,000	3.5	1.9	1,717,000,000	1,075,000,000	62.6

[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.

Unemployment Insurance Mail Payment

In 1977, EDD conducted a study of five local offices which had converted to a UI mail payment system. The study was initiated in an effort to (1) reduce the cost of EDD's office and parking facilities, (2) reduce the congestion and waiting time in EDD offices, (3) improve job search assistance and (4) assess the effectiveness of an automated system in making UI benefit payments. The study concluded that such a conversion would have positive results. Based on this study, the department converted all local EDD offices with UI functions to the mail pay procedure.

There are five basic steps in the handling of a typical unemployment insurance claim, whether by regular or mail pay systems: (1) first contact—filing of an unemployment insurance claim application, (2) first payment—filing the first weekly claim, (3) second and continuous biweekly payments, (4) periodic eligibility review, and (5) determinations of eligibility. Both systems require the claimant to appear at an EDD office for all transactions other than the second and subsequent biweekly payments. Under the regular system, the claimant must appear in person to receive these payments. Under the mail payment system, the claimant mails to the department a continued claim form certifying that he or she meets all eligibility requirements, and, if it is properly certified, the claimant will be mailed UI benefits.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

DISABILITY INSURANCE PROGRAM

The State Disability Insurance (SDI) program was established in 1946. Its primary objective is to reduce economic hardship through benefit payments to individuals 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 must have worked in "covered employment" as defined in the UI Code. Employment may be covered either under the state plan or a voluntary plan. Voluntary plans are sponsored by employers and approved by the Director of EDD. The program is funded by worker contributions equal to 1 percent of monthly taxable earnings up to $11,400 per year.

An eligible worker can receive a weekly benefit amount of $30 to $146, based on wages earned during a 12-month base period. The maximum amount of benefits payable during a period of disability is 26 times the weekly benefit amount, or one-half the claimant's base period wage, whichever is less. Disability due to normal pregnancy is payable for a maximum of six weeks.

The budget proposes $526,553,874 for the DI program in 1979–80, an increase of $26,406,730, or 5.3 percent, over estimated expenditures in the current year. This increased amount results from raised benefit payments. Item 266 appropriates $28,774,124 from the Unemployment Compensation Disability Fund for administrative support of this program during 1979–80, which is an increase of $1,768,176, or 6.5 percent, above the estimated current year expenditure. *We recommend approval.*

Table 8 illustrates the changes in the Disability Fund for calendar years 1968–1978.

Table 8
DI Fund Activities for Calendar Years 1968–1978

	Cash Fund Balance	*Total Income*	*Expenditure*	*Expenditure as a Percentage of Total Income*
1968	$94,135,357	$284,607,681	$263,893,357	92.72%
1969	107,235,199	305,168,464	292,068,622	95.71
1970	93,077,176	310,259,918	324,417,941	104.56
1971	82,411,382	309,962,341	320,628,135	103.44
1972	115,148,785	369,110,306	336,372,903	91.13
1973	183,528,499	397,448,677	374,068,962	94.12
1974	141,353,059	413,729,518	410,904,959	99.32
1975	131,812,709	431,344,318	440,884,668	102.21
1976	158,622,189	453,528,883	426,719,402	94.09
1977	284,987,349	567,595,173	441,230,013	77.74
1978	438,741,927	643,214,636	289,460,058	76.10

SCHOOL AND GOVERNMENT EMPLOYEES PROGRAM

State law requires that school employers pay an amount equal to 0.5 percent of the wages paid to regular classified school employees and 3.6 percent of the wages paid to special projects classified school employees to the School Employees Fund. The funds are used to reimburse the Unemployment Fund for UI benefits paid to former classified school employees. Table 9 indicates the School Employee Fund balance and total income and expenditures during a seven-year period.

The budget proposes an expenditure of $25,555,773 in 1979–80, $25,150,000 of which is for projected benefit payments. The proposed administrative cost is $405,773, which is a $14,434 increase over the current year.

Extended Coverage

Chapter 2, Statutes of 1977, extended UI coverage to all employees of local government. Each local government may elect to pay regular employer contributions or may contribute to the Local Public Entity Employees Fund to reimburse the Unemployment Insurance Fund on a dollar-for-dollar basis. A local public entity pays an amount equal to 0.8 percent of wages paid into the Local Public Entity Employees Fund. The budget proposes an expenditure of $5,274,010 in the budget year, $5,000,000 of which is for projected benefit payments. Administrative expenditures for the budget year, $274,010, are paid from the interest earnings of the fund.

Table 9

School Employees Fund Balance and Total Income and Expenditures

	Fund Balance End of Year	*Fund Balance as Percentage of Wages*	*Total Income*	*Expenditures*[a]	*Benefits Percentage of Current Employer Taxes*
1972	$1,208,215	0.14%	$1,236,725	$213,165	30%
1973	12,514,007	1.28	12,496,533	2,566,326	30
1974	16,358,904	1.50	7,569,052	4,059,724	68
1975	22,573,003	1.76	11,535,050	4,970,596	49
1976	28,591,805	2.02	12,088,618	8,772,924	106
1977	26,678,217	1.73	7,461,616	8,296,775	203
1978 (Est.)	32,385,516	0.47	16,767,885	11,656,484	72

[a] Includes accrued expenditures that were not paid until subsequent calendar year.

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. Specifically, SEOO's major responsibilities are:

1. Acting as primary conduit for training and technical assistance to the 38 community action agencies in California.

2. Administering energy conservation and weatherization activities for the Department of Energy and the Community Services Administration.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

3. Providing direct services to the California balance-of-state areas (balance of state areas are counties not having a community action agency).
4. Implementing a joint partnership between Western Region/Community Services Administration and SEOO in organizing six new community action agencies.
5. Providing primary training and technical assistance for economic development.
6. Coordinating and administering all state agency demonstration projects.

The total proposed program expenditure of $5,767,422 is a decrease of $2,464,017, or 30 percent, from current year anticipated expenditures. This decrease is primarily due to the discontinuation of a federal weatherization grant after 1978–79. The SEOO has indicated that these funds may be made available again during the budget year, although they are not shown in the proposed EDD budget.

The General Fund request of $155,500 represents the same level of funding which is estimated to be expended during the current year. The basic administrative program is supported 80 percent by federal funds, with the remaining 20 percent coming from state funds.

Table 10 shows the major programs operated by the office.

In addition, 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 the U.S. Department of Agriculture. This program is located in the state Department of Housing and Community Development, and is operated under an interagency agreement. The program, which has been funded by PWEA Title II funds, will terminate in September 1979.

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. In addition, the office is emphasizing the development and improvement of economic development capabilities of community action agencies.

Table 10
SEOO Major Programs

	1977–78		1978–79		Percent Change in	1979–80		Percent Change in
	Positions	*Expenditures*	*Positions*	*Expenditures*	*Expenditures*	*Positions*	*Expenditures*	*Expenditures*
1. Local Agency Assistance	(42)	$1,108,953	(51)	$1,545,994	+39.4	(46)	$1,059,707	−31.5
A. Community Economic Development								
B. Intergovernmental Personnel Act								
C. Community Food and Nutrition								
2. Research and Demonstration Projects	(15.5)	250,407	(33)	1,002,052	+300.0	(33)	1,008,215	+.6
A. Access California								
B. Housing Intern Program								
C. Proposition 13 Study								
3. Direct Service Program	(8.5)	2,108,440	(17)	5,683,393	+170.0	(17)	3,699,500	−34.9
A. Energy Conservation								
B. Energy Conservation Weatherization Assistance								
C. Weatherization Assistance								
D. Summer Youth Recreation								
TOTALS	(66.6)	$3,467,850	(101)	$8,231,439	+137.4	(96)	$5,767,422	−29.9

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

SEOO Legislative Report

The Legislature approved supplemental language to the 1978 Budget Act which directed SEOO to submit to the Joint Legislative Budget committee by November 1, 1978, a report detailing the results of the SEOO salary survey. In addition, the report was to outline ongoing program responsibilities, workload, and manpower estimates, recommend the number of authorized positions for the office, and include justification for retaining a specific number of exempt positions.

The report was not submitted until January 1979. Thus, we were not able to review its findings and recommendations in time to include our comments on them in this analysis. We will be reviewing the findings and recommendations of this report, and will provide additional information to the Legislature during budget hearings.

Current Population Survey

Each month the Bureau of Labor Statistics (BLS) publishes a national analysis of 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.

In our *Analysis of the Budget Bill* for 1978-79, we recommended that EDD use unallocated PWEA Title II funds in the current fiscal year to contract with the Bureau of Census for a one-time expansion of the current population survey in California. We estimated the cost of surveying 35,000 households to be $7.5 million. The Legislature provided the funds for this program.

The expansion of the CPS would significantly improve forecasts of state economic conditions and would assure that California receives the maximum allocation of federal program dollars. Furthermore, an expanded CPS would provide vital information for use in addressing the problems of the unemployed.

The department has had discussions with representatives of the BLS and Bureau of Census. While both entities support the expansion, they are unable to undertake it, even on a reimbursable basis, due to other workload priorities such as the 1980 census and a special survey on voter registration. Also, they have serious reservations about undertaking a survey of this magnitude without the state guaranteeing continued funding.

It is apparent that an expanded CPS could not be conducted until 1982 or 1983. We will continue to explore these and other avenues for improving the quality of economic and demographic data available to state forecasters and planners.

YOUTH EMPLOYMENT AND DEVELOPMENT ACT OF 1977

Chapter 678, Statutes of 1977, established the California Youth Employment and Development program within EDD. The department is required to administer funds appropriated to the program in cooperation with other state agencies and with the CETA prime sponsors.

There are five funding categories in this program:

(1) *On-the-job Training Programs.* Private employers are reimbursed for providing training at the worksite for program participants, who also receive training stipends.
(2) *Youth Community Service Programs.* Work experience will be provided to participants in order to develop job skills and good work habits.
(3) *Innovative Demonstration Programs.* Designed to facilitate the transition of youth from school to work by combining classroom education with work.
(4) *Apprenticeship Programs.* These programs are to be experimental in the application and expansion of apprenticeships with business and labor unions.
(5) *Coordination Programs.* These programs increase state and local cooperative efforts in providing employment and training services for in-school and out-of-school youth.

The law specifies that at least 60 percent of these funds have to be allocated for on-the-job training and community service programs.

EDD has operated this program since January 1978. The budget shows that $2.7 million was expended during 1977–78 and $4.8 million is expected to be spent during the current fiscal year. The budget proposes an additional General Fund appropriation of $5 million for 1979–80.

As of January 1979, about 24 projects have been funded. A majority of projects are On-the-Job Training (OJT) such as:

1. Fresno County .... ($544,275)

Includes a trial job component in which youths will be placed in private sector work experience slots for two weeks with a 100 percent subsidy before being hired as permanent employees. The project will offer 13-week full-time OJT slots to 120 youths.

2. San Fernando Valley .... ($523,235)

Project Heavy will provide intensive employment service to youth referred by the juvenile justice system. Work experience in the private sector and OJT will be provided to 100 youths.

3. San Francisco .... ($141,000)

Provides job training for ex-substance users. The length of training and individual rates of pay will vary according to occupations.

The state Youth Employment and Development Act requires that projects funded under it be evaluated. The Cal-ETA Office, which administers this program, has recently implemented an evaluation system which aims at assessing the effectiveness of such projects. This evaluation system is designed to provide information on such things as whether a successful OJT program depends on a certain client mix, certain labor market conditions or on the cost per participant. Furthermore, such evaluations would enable the department to conduct comparison studies involving similar programs over such aspects as cost per placement, cost per participant, and placement rates.

Cal-ETA informs us that the first set of evaluations, covering eight of the 30 existing projects, will not be available until August 1979. These eight projects, however, are not a representative cross-section of this program

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

and, as a result, their findings, even if positive, will not be conclusive.

Youth Employment Project Evaluation

We recommend that control language be added to Item 277(e) in the Budget Bill which would require the Employment Development Department to complete its evaluation of all the existing state-funded youth employment projects before any of the additional General Funds in this item can be expended during 1979–80. In addition, EDD should be required to report to the Joint Legislative Budget Committee the findings of these evaluation reports, how the budgeted funds will be expended, and how these programs interrelate with other state and federal programs for youth employment.

We cannot recommend approval of the $5 million in additional state funds until the effectiveness of existing projects has been clearly demonstrated and the possibility of duplication between this program and other youth employment and training programs has been resolved.

In the budget year, EDD will receive an estimated $6.3 million in *federal funds* under the Youth Employment and Demonstration Project Act of 1977. These federal funds are supposed to be targeted to the same youth employment population as the state program. EDD has not resolved the possible overlap issue.

Also unresolved is the issue of how these programs interrelate with the $610 million California spends on vocational education and the estimated $275 million the state will receive in federal CETA funds which are designed to assist youths and other target populations in gaining training experience and employment.

Before EDD starts another cycle of expenditures in this area, it should be required to thoroughly evaluate the effectiveness of existing expenditures and also to resolve any duplication problems. Until these two tasks are accomplished, the new budgeted funds should be frozen. The federal funds could be used for youth employment activities while the state funds are frozen.

PERSONAL INCOME TAX (PIT)

The Personal Income Tax (PIT) program is designed to collect payroll deductions from employers. All employers are required by law to deduct, report and pay personal income tax from workers' wages. Tax schedules are prepared by the Franchise Tax Board and contributions are collected by the department which acts as an agent for the state.

Chapter 1252, Statutes of 1977, transferred the responsibility for employment tax operations from the former Department of Benefit Payments to the department, effective July 1, 1978.

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. These three tax collection functions are displayed as separate programs in the budget. Table 11 shows the three programs in terms of personnel-years and expenditures.

TABLE 11

Employment Tax Operations
Personnel Years and Expenditures

	Actual Positions 1977–78	*Estimated Positions 1978–79*	*Proposed Positions 1979–80*	*Actual Expenditures 1977–78*	*Estimated Expenditures 1978–79*	*Proposed Expenditures 1979–80*
Unemployment Tax Collection:						
Employment Development	35.9	911.6	945.3	$1,074,427	$20,869,644	$23,020,759
Department of Benefit Payments	(699.4)			15,357,598		
DI Tax Collection:						
Employment Development		193.8	193.8		4,188,918	4,420,501
Department of Benefit Payments	(163.9)			3,565,005		
Personal Income Tax:						
Employment Development	(Listed under Social Services Department	394.2	394.2	(Listed under Social Services Department	8,622,031	9,060,631
Department of Benefit Payments						
Totals	899.2	1,499.6	1,533.3	$19,997,030	$33,680,593	$36,501,891

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The budget proposes an increased expenditure of $438,600, or a 5.1 percent increase for the PIT program. The program is funded through reimbursements from the Franchise Tax Board.

ADMINISTRATIVE STAFF AND TECHNICAL SERVICES

The objective of this program is to provide support services to line managers so that they may concentrate their resources on the accomplishment of the basic departmental goals. Areas of support services include fiscal management, personnel management and management systems.

The budget proposes a funding allocation of $21,508,354 which is distributed to the other departmental programs. This is an increase of $7,602, or .03 percent, over the current year expenditure estimates.

TRANSFER OF CONTINGENT FUND SURPLUS FUNDS

The Contingent Fund receives its revenue from employer fines and late charges imposed 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 of the department shall be transferred to the two insurance programs. The primary use of the Contingent Fund is to pay the pro rata charges of overall state government operations which are charged to EDD but cannot 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 $2,138,717 from the Contingent Fund to the Insurance Fund during 1979–80. This is a decrease of $4,628,255, or 68.4 percent, from the projected transfer of funds during the current year. A lack of available Contingent Fund surplus is the reason for the decrease.

Item 278 appropriates $4,047,728 to the department for payment of charges not allowed by the Department of Labor. This appropriation is an increase of $1,998,903, or 97.6 percent, and results from increased pro rata charges.

FORMER INMATES UNEMPLOYMENT INSURANCE PROGRAM

Chapter 1149, Statutes of 1977, provided for unemployment and disability benefits to former prisoners on the basis of their employment or job training while incarcerated. The Former Inmates Unemployment Insurance Program is budgeted at $1,162,231 for the 1979–80 fiscal year, an increase of $5,157, or 0.4 percent. The department projects that 15,750 former inmates will receive benefit payments in the budget year. EDD and the California Department of Corrections (CDC) operate this program under an interagency agreement pursuant to which CDC reimburses EDD for benefits paid and administrative costs.

Under this program, inmates are given wage credits computed at $2.30 an hour (the actual wage rate paid is much less) for participation in prison work programs or vocational training programs approved by the CDC. On the basis of these "wages" former inmates would be eligible to receive either UI benefits (including extended duration benefits) or SDI benefits for up to a combined maximum of 26 weeks. In addition, former inmates are allowed to use wages earned in a base year prior to incarceration in computing UI and SDI benefits under this program.

Regular UI claimants must earn at least $750 in the base year while under this program. Inmates must have worked enough hours at the artificial hourly wage rate of $2.30 to have earned $1,500 in the base year.

Cooperative Education and Job Training Program

We recommend a deletion of $5 million from the General Fund proposed for the Cooperative Education and Job Training Program (Item 277(f)).

The department is proposing an expenditure of $5 million to establish the California Education and Job Training Program (CEJP). The department contends the program is a new effort to bridge the gap between school and work by directly involving private employers in the process of educating and training youths to enter the job market. All locally developed CEJPs will: (1) directly link skills training with private sector demand occupations having potential for career advancement or promotional opportunities, (2) emphasize short-term job-specific classroom training combined with worksite training and (3) provide upgrading and retraining programs in concert with private sector employers.

Other program requirements are that wage replacements, stipends or other financial incentives must be provided, thus allowing economically disadvantaged persons to enter and complete training. Also, CEJPs must utilize available local resources and not solely depend on program funds for operation. Programs are to be evaluated by an independent party.

The new program has elements which duplicate both the state and federal youth employment programs, and also existing vocational education programs. EDD has not justified the need for yet another program in this area. For example, during the budget year, approximately $885 million will be available for vocational education and the training component of CETA. Accordingly, we see no justification for adding another $5 million for a duplicative program. Rather than establish a new program in this area, the administration should focus its energies on overcoming the problems with existing vocational education, such as those previously identified by our office and the Joint Legislative Audit Committee:

(1) Many students are enrolled in vocational education fields which are not projected to show major growth in employment opportunities during the next several years;
(2) Follow-up on graduates and employers has generally been minimal and information about placement of former students unavailable;
(3) Occupational guidance and counseling have not received adequate attention.

Contractors Law Enforcement

We recommend a deletion of $308,074 from the General Fund proposed for permanently establishing the Contractors Law Enforcement Program (Item 277(g)).

The Contractors Law Enforcement Program is a pilot project which is being supported by Title II funds during the period May 1978 through April 1979. The project is part of a tri-agency endeavor which includes the

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Departments of Industrial Relations, Employment Development and Consumer Affairs. The purpose of the project is the enforcement of laws pertaining to construction contractors, such as those concerning licensing, independent contractors, employment taxes and safety standards. The departments exchange information and conduct audits in the specific areas that they regulate. It is generally assumed that if a contractor has violated one regulatory law, it is likely that the contractor has violated other laws as well.

EDD is proposing the expenditure of $308,074 in the budget year for 13 new Auditor I positions and three Office Assistant II positions to permanently staff this program.

The department indicates that between May and September of 1978 it was able to generate an additional 192 contractor audits with a resulting net recovery of $210,648 in unpaid taxes. Based on these results, EDD anticipates that an estimated 1,100 additional contractor audit cases would lead to the recovery of $505,730 in taxes. The projected audit recovery per case is less than half of the amount collected last summer. These budget estimates indicate that future audit leads are not expected to be as productive as the original leads.

Currently, PWEA funds support 11 position equivalents at the student assistant level. These student assistant positions were designed to perform certain "back-up" routine functions in order that the auditors could spend more time in the field. However, as a result of discussions with EDD management and field office personnel, we found that:

1. These student assistants were not targeted to the same geographic areas where the other departments which worked on this program concentrated auditing personnel.

2. Frequently, these positions were not utilized as back-up positions for the auditors working on these violations.

Consequently we question whether the results of this pilot audit program, were in fact due to the hiring of the student assistants. We believe the department achieved the results through a reallocation of its existing audit resources. The department has not provided information which would demonstrate that this program cannot be continued with existing resources. Therefore, we cannot recommend the approval of 16 new positions for this activity.

Employment Development Department
LEGISLATIVE MANDATES

Item 280 from the General Fund — Budget p. 748

Requested 1979–80	$600,000
Estimated 1978–79	1,839,000
Actual 1977–78	000
Requested decrease $1,239,000 (67.4 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, the 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 $600,000 for reimbursing local government entities for legislatively mandated local costs. This is a decrease of $1,239,000 or 67.4 percent from the level of expenditures anticipated in the current year. Two factors account for the decrease. First, the implementation of federal law in California has reduced the state's obligation to reimburse local governments.

Chapter 2, Statutes of 1978, implemented the provisions of federal Public Law 94-566, which extended unemployment insurance coverage to all employees of state and local government including school employees. Coverage for these employees is mandated by federal law and regulations and not by state statutes as of January 30, 1978. As a result of Chapter 2, the state will no longer be responsible for reimbursing local entities for the cost of unemployment insurance coverage. EDD projects that within the next two years, reimbursements to local entities for unemployment insurance costs will be phased out completely. The $600,000 proposed in the budget will provide reimbursements for claims which cover the pre-January 30, 1978 period.

Second, the backlog of claims for payments to school employees was eliminated during the current year. Thus, the added cost of reducing the backlog will not be incurred in 1979–80.

Health and Welfare Agency
DEPARTMENT OF REHABILITATION

Item 281 from the General Fund — Budget p. 758

Requested 1979–80	$14,329,801
Estimated 1978–79	13,752,771
Actual 1977–78	11,621,666
Requested increase $577,030 (4.2 percent)	
Total recommended reduction	$101,747

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
281	Support, Department of Rehabilitation	General	$11,829,801
Chapter 1227, Statutes of 1978			2,500,000
Total			$14,329,801

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Workshop Positions. Reduce Item 281 by $101,747 (General Fund).* Recommend elimination of 3.5 positions for workshop activities. — 740
2. Recommend transfer of $1.5 million from State Personnel Board (Item 128) to Department of Rehabilitation pursuant to recommendation in Item 128. — 741

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. Programs related to fulfilling this responsibility are the removal of architectural and transportation barriers, prevocational services to disabled persons not yet ready for vocational rehabilitation, development of small business opportunities for the blind and severely disabled, advocacy for the rights and opportunities of the disabled and service to clients through vocational rehabilitation counselors.

The department operates under the authority of the Federal Rehabilitation Act of 1973, as amended in 1974 and 1978, and Division 10 of the Welfare and Institutions Code. The budget identifies the following five programs administered through the department:

1. Rehabilitation of the Disabled
2. Small Business and Job Development
3. Development of Community Rehabilitation Resources
4. Habilitation Services
5. Administration

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total program expenditure of $115,740,780, of which $94,186,308, or 81.4 percent, is from federal funds and $14,329,801, or 12.4 percent, is from the General Fund. Reimbursements of $4,678,648 constitute 4 percent of the budget. An additional $2,546,023, constituting 2.2 percent of the total budget, is from special deposit funds which consist of federal funds and other revenue. The total proposed expenditure is $4,887,520, or 4.4 percent, above estimated total expenditures during the current year.

The proposed level of General Fund support, $14,329,801, is $577,030, or 4.2 percent, above estimated expenditures during the current year. Table 1 summarizes the sources of funding for the three fiscal years ending June 30, 1980:

Table 1
Summary of Funding Sources
Department of Rehabilitation
1977–78 to 1979–80

	Actual 1977–78	*Estimated 1978–79*	*Proposed 1979–80*	*Difference*	*Percentage Change*
1. General Fund	$11,621,666	$13,752,771	$14,329,801	$577,030	+4.2%
2. Federal Funds					
(a) Section 110—Basic 1973 Rehabilitation Act as amended	62,930,965	67,548,959	70,518,107	2,969,148	+4.4
(b) Social Security Disabilities Beneficiaries—Social Security Act as amended	8,710,000	10,559,939	12,468,684	1,908,745	+18.3
(c) Supplemental Security Income Recipients	7,420,000	9,478,843	10,617,758	1,138,915	+12.0
(d) Other Federal Funds	1,941,871	3,135,353	2,133,626	−1,001,727	−32.0
3. Special Deposit Fund—Vendor Stand Account	893,222	946,815	994,156	47,341	+5.0
4. Reimbursements	6,799,576	5,430,580	4,678,648	−751,932	−13.9
TOTAL	$100,317,300	$110,853,260	$115,740,780	+$4,887,520	+4.4

Table 2 compares expenditures and personnel-years, by program, for the current and budget years.

The sharing ratio for the basic rehabilitation program costs is 80 percent federal and 20 percent state. Rehabilitation services provided to beneficiaries of Social Security Disability Insurance (SSDI) and to recipients of Supplementary Security Income (SSI) are supported by federal funds.

Control Sections 27.1 and 27.2

In compliance with Control Sections 27.1 and 27.2 of the 1978 Budget Act, the department's current year budget was reduced by a total of $900,000. In accordance with Section 27.1, $750,000 was deleted from operating expenses and equipment. Eight positions and $150,000 will be deleted in compliance with Section 27.2. The department has not identified the specific positions.

DEPARTMENT OF REHABILITATION—Continued

Table 2
Department of Rehabilitation
Personnel-Years and Gross Expenditures by Program
1978–79 and 1979–80

	Estimated Personnel Years 1978–79	*Proposed Personnel Years 1979–80*	*Estimated Expenditures 1978–79*	*Proposed Expenditures 1979–80*
I. Rehabilitation of Disabled	2,192.0	2,099.5 [a]	$98,724,735	$101,800,067
II. Small Business and Job Development	59.0	59.0	4,145,919	4,298,910
III. Development of Community Resources	30.5	30.5	5,482,606	4,674,759
IV. Habilitation Services	2.0 [b]	94.5	2,500,000	4,967,044
V. Administration	(328.8)	(328.8)	(10,471,314)	(10,627,116)
Total	2,283.5	2,283.5	$110,853,260	$115,740,780

[a] 92.5 positions redirected to the newly established Habilitation Services program.
[b] Funded through Chapter 1227, Statutes of 1978 (AB 2461)

Rehabilitation Engineering Technology Grant (CARE-TECH)

The budget proposes to continue funding for a project begun in the current year to develop a model system for the delivery of rehabilitation technology information. The major goal of the project is to develop an information system about existing assistance devices. An assistive device is any mechanical device, such as a special wheelchair, which assists disabled persons to expand their range of functioning.

The primary source of funding for the project is a federal HEW grant that will provide $200,000 for federal fiscal year 1979 and $250,000 annually for 1980 and 1981. The state participation is $14,933.

Habilitation Services Program

Habilitation services are prevocational services designed to assist those severely disabled persons who are currently unable to benefit from vocational rehabilitation programs but can benefit from broad range developmental programs to increase independence and social functioning.

In our 1978–79 Analysis, we recommended that "habilitation" services be presented as a separate program in the Governor's Budget so that the costs and benefits of the program can be assessed more easily. This has been done in the budget for 1979–80. Table 4 shows total expenditures and personnel years for habilitation services by organizational unit within the department.

Table 3
Habilitation Services Program
Fiscal Year 1979–80

Organizational Unit	*Proposed Personnel-Years 1979–80*	*Proposed Expenditures 1979–80*
Orientation Center for the Blind	39.3	$1,015,042
Counselor Teacher (45 percent Vocational)	14.3	439,743
Counselor Teacher (55 percent Non-Vocational)	17.4	537,463
Workshop Demonstration Project	4.4	124,437
Reader Services for the Blind	—	88,808
Independent Living Research Project	3.9	139,405
Workshop Long-Term Funding, Chapter 1227, Statutes of 1978	1.9	2,376,222
Total Habilitation Services Program	81.2	$4,721,120
Undistributed Administrative Cost	13.3	245,924
Total	94.5	$4,967,044

The goals of the Habilitation Services program are to (a) develop a broad range developmental approach to increase independence, (b) improve social functioning and (c) develop the individual's potential for vocational rehabilitation programs.

New Federal Legislation

In October 1978, Congress passed legislation which amended the 1973 Rehabilitation Act and added new provisions for providing habilitation services to all disabled groups. This legislation (known as the Comprehensive Service Act) will have a significant impact on the Department of Rehabilitation's mission.

Prior to the enactment of this legislation, the primary mandate of the department was to provide vocational rehabilitation services to the nonseverely disabled and the severely disabled. As a result, the department tends to serve clients between the ages of 18 and 64. While the department provided some habilitation services, as well, these services were not a key feature of the department's activities. The 1978 amendments, however, require the department to provide habilitation services to all disabled groups in order to qualify for federal funding. Because the new provisions do not have a vocational focus, the age group of those eligible to receive habilitation services from the department could be broadened to include children and older citizens.

A major provision of the new federal law establishes the Comprehensive Services for Independent Living program. This program will provide grants to states to help finance comprehensive services for severely disabled individuals who do not presently have the employment potential which enables them to live and function independently. Services could include rehabilitation, health, homemaker and attendant care as well as others needed to enable disabled persons to live independently. Priority is to be given to those currently unserved by other rehabilitation or developmentally disabled programs. Other provisions of the act authorize

DEPARTMENT OF REHABILITATION—Continued

grants to establish Centers for Independent Living for the severely disabled.

In 1972 California established its first Center to provide a range of services such as counseling, health maintenance and independent living training. There are now 20 Centers in operation, 13 of which have received state funds for partial support.

The act authorizes an annual appropriation of $80 million for the Centers and the program of comprehensive services. However, the federal budget includes only $2 million in grant funds. The department indicates that it could potentially receive only $200,000 of these funds.

Finally, the act authorizes a community services employment program for disabled persons, under which grants may be awarded to aid disabled persons in establishing their own business. The department could receive $3.5 million for this purpose.

In summary, the new legislation (1) significantly broadens the mandates of services to be provided by the department, (2) increases the number of disabled client groups to be served, and (3) authorizes approximately $3.7 million in additional funds which are likely to be available to the department. The full impact of the new legislation will not be known until the spring of 1979, when the federal regulations implementing the new law will be issued.

In order that the Legislature may thoroughly assess the fiscal and program ramifications of the new federal law during budget hearings, the department should advise the Legislature as to how its program for 1979–80 could be affected by the act's provisions.

Program for the Industrially Injured

Chapter 1435, Statutes of 1974, 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. Fees for services provided to injured workers under Chapter 1435 are charged to insurance carriers or to former employers of the injured workers.

In order to establish the initial phases of the industrially injured worker program, the department applied for and was granted funding through Title II of the Public Works Employment Act. A total of $313,076 was granted in fiscal year 1976–77 and $469,615 was granted in fiscal year 1977–78. The funds were to support the establishment of a separate unit specifically assigned to implement the program. The funds provided support for 66.5 positions. Additional Title II funds of $122,902 were provided in 1977–78.

From the beginning, the department anticipated that the program would become self-supporting through reimbursements. However, in the 1977–78 fiscal year reimbursements of $539,863 were able to support only 35 percent of the program costs. The remainder of the costs were supported by (1) Title II funds of $592,517, (2) federal funds of $335,307 and (3) $83,827 from the General Fund, for a total of $1,551,514. At the time the additional Title II funds were granted, the department projected self-support by fiscal year 1980–81. In the current year, reimbursements are estimated to total $705,028, or 44.7 percent, of program support. Other support consists of (1) Title II funds of $447,715 (28.4 percent), (2) federal funds of $339,184 (21.5 percent), and $84,796 from the General Fund (5.4 percent) for a total of $1,576,723 and 66.5 positions.

The budget proposes to continue the same current level of 66.5. It also anticipates that reimbursements will increase to $1,137,817, or 68 percent of total program cost. For this to happen, the fees collected from insurance companies will have to increase $432,789, or 61 percent. Additional support will continue to come from federal and state funds of $533,777 ($427,022 federal and $106,755 state). No additional Title II funds are anticipated after January 1979.

The department now expects the program to achieve self-support by fiscal year 1981–82, one year later than previously estimated. According to the department, it has failed to achieve higher reimbursement levels due to the backlog of eligibility determinations which the Department of Industrial Relations (DIR) is required to provide.

While the Department of Rehabilitation has primary responsibility for (1) developing individual rehabilitation plans and (2) providing actual rehabilitation services, the Rehabilitation Bureau of the DIR is mandated under Chapter 1435 to review and approve the individual rehabilitation plans. Without this approval, called the Qualified Injured Worker (QIW) document, the Department of Rehabilitation cannot bill, and therefore cannot be reimbursed by, an insurance carrier for the cost of services provided.

Currently, DIR has a significant backlog of potential Qualified Injured Worker cases. Until these cases are approved, the Department of Rehabilitation continues to provide services without reimbursements from the insurance carriers. To compound the problem, the Department of Rehabilitation is not always submitting the proper documentation plans to the Department of Industrial Relations.

Because the Department of Rehabilitation is mandated to provide service to all qualified persons, regardless of whether a QIW document is approved, failure to provide the document results in the costs for providing the service being shifted to basic federal/state rehabilitation funds.

In an attempt to eliminate the backlog and meet the demands of increasing caseloads, the DIR has proposed the addition of seven Workman Compensation Rehabilitation Consultants and eight Office Assistant IIs in the budget.

The Department of Rehabilitation also reports that insurance carriers and self-insured public and private agencies are adding to the problems of collecting reimbursements. The employing agency is required to notify the Department of Industrial Relations within 120 days of an accident affecting one of its workers. However, the Department of Rehabilitation reports that the notification is not always submitted in a timely manner, and in some instances it is not submitted at all.

For these reasons, we have serious concerns about the ability of the Department of Rehabilitation to (1) increase its reimbursement level to support 68 percent of the program, (2) to support the program without the use of additional state and federal resources, and (3) to become self-supporting by the projected time of fiscal year 1981–82.

Accordingly, we recommend that the Department of Rehabilitation report to the subcommittees on (1) the Department of Industrial Relations' success in reducing the backlog, (2) its ability to increase the level of reimbursement and (3) the basis for its projection that the program can become self-supporting by 1981–82. Such information should be made available by April 1, 1979.

Workshops

We recommend that 3.5 positions be eliminated from Item 281, for a General Fund savings of $101,747.

Chapter 1227, Statutes of 1978, appropriated $2,500,000 to the Department of Rehabilitation to purchase services for developmentally disabled adults enrolled in community-based sheltered workshops and work activity centers who are either not funded or are only partially funded by public or private agencies.

Sheltered workshops are programs which provide training in vocational and social skills which may lead to competitive employment. Work activity centers provide long-term training in personal and social skills which may create a rehabilitation potential. These programs are funded from a variety of private and public sources. Many clients receive funding from more than one source. However, some clients are accepted by the programs without any source of funds or only a partial source. The clients are referred to as unfunded or partially funded clients.

Chapter 1227 mandates that the $2,500,000 be used to purchase services for clients enrolled in workshops on July 1, 1978. Priority funding is to be given to unfunded clients. The department estimates that it will serve approximately 1,100 clients in 1978–79 for a total expenditure of $1.8 million.

From the $2.5 million appropriation available in the current year, the department has established 5.5 positions at a cost of $108,743. Two of these positions were administratively established in the current year, and although funding for them is included in the budget, the positions are currently unfilled. The department reports it is in the process of recruiting these positions. The remaining 3.5 positions have been redirected from a workshop demonstration project that terminated on December 31, 1978. The budget requests $151,502 to fund program administration in the budget year.

In an analysis of Chapter 1227 prepared by the department, the department estimated its annual cost to administer the program at $46,500 for two staff positions, leaving a balance of $2,453,500 for purchase of services. Because the intent of the bill was to maximize purchase of service dollars for severely disabled clients in workshops, we question the appropriateness of using two to three times the estimated amount for administration.

We recommend that the funding level of the program be reduced to $49,755 to reflect the staffing level anticipated in the department's enrolled bill analysis (two positions) adjusted for inflation. This will permit a General Fund savings of $101,747.

Recommend $1.5 Million Transfer From the State Personnel Board

We recommend that, if the recommendation contained in our analysis of the State Personnel Board (SPB) (Item 128) is adopted to transfer $1.5 million from the board to the Department of Rehabilitation, an adjustment be made to increase the department's General Fund appropriation by that amount (Increase Item 281).

In our analysis of the SPB (Item 128) we recommend that $1.5 million be transferred from the board to the Department of Rehabilitation. If our recommendation is adopted, this Item should be increased by $1.5 million as a technical adjustment.

DEPARTMENT OF SOCIAL SERVICES

General Summary

Table 1 identifies expenditures and revenues from all funds for programs administered by the Department of Social Services for fiscal years 1978–79 and 1979–80.

Funds for the Department of Social Services are contained in nine items and one control section of the 1979–80 Budget Bill, as identified in Table 2. The department requests a total of $1,684,952,084 from the General Fund for fiscal year 1979–80. This is an increase of $85,243,554, or 5.3 percent, over estimated current year General Fund expenditures.

Table 1
Department of Social Services
Expenditures and Revenues by Program
All Funds
1978–79 and 1979–80

Program	Estimated 1978–79	Proposed 1979–80	Change over 1978–79 Amount	Change over 1978–79 Percent
I. State Operations	$88,350,676	$89,114,809	$764,133	0.9%
II. AFDC	1,857,736,900	2,024,242,200	166,505,300	9.0
III. SSI/SSP	1,551,817,400	1,661,131,200	109,313,800	7.0
IV. Attorneys' Fees for Judicial Review of Fair Hearings	—	15,000	15,000	n/a
V. Special Adult Programs	5,472,596	6,003,700	531,104	9.7
VI. Harrington vs. Obledo Court Case	—	5,798,600	5,798,600	n/a
VII. Special Social Services Programs	501,551,326	567,075,289	65,523,963	13.1
VIII. County Welfare Department Administration	370,033,891	409,698,271	39,664,380	10.7
IX. Indo-Chinese Refugee Program Residuals	17,210,500	15,662,400	−1,548,100	−9.0
X. State Council on Developmental Disabilities and Area Boards[a]	1,922,010	—	−1,922,010	−100.0
Total	$4,394,095,299	$4,778,741,469	$384,646,170	8.8%
General Fund	$1,599,708,530	$1,684,952,084	$85,243,554	5.3
Federal Funds	2,117,478,760	2,355,770,246	238,291,486	11.3
County Funds	647,292,819	715,512,948	68,220,129	10.5
Reimbursements	29,615,190	22,506,191	−7,108,999	−24.0

[a] Funding and administrative support responsibilities for these organizations were transferred to the Department of Social Services from the Department of Developmental Services for the period October 1, 1978 through June 30, 1979. In fiscal year 1979–80, these entities have separate budgets.

Table 2
Department of Social Services
General Fund Requests
1978–79 and 1979–80

Budget Item		*Estimated 1978–79*	*Proposed 1979–80*	*Percent Change*
282	Departmental Support	$26,626,086	$34,444,087	29.4%
Control Section				
32.5	Cash Grants—AFDC	612,364,000	661,967,800	8.1
283	Attorneys' Fees	—	15,000	N/A
284	Cash Grants—SSI/SSP	734,844,300[a]	706,156,442	−3.9
285	Special Adult Programs	5,437,596	5,968,700	9.8
286	Harrington vs. Obledo Court Case	—	5,798,600	N/A
287	Special Social Service Programs	132,392,220	177,143,755	33.8
288	County Administration	71,420,291	79,008,300	10.6
289	Executive Mandates	42,100	42,100	0
290	Legislative Mandates	16,581,937	14,407,300	−13.1
	Total	$1,599,708,530	$1,684,952,084	5.3%

[a] Includes $14,061,100 of increased cost to the counties for the SSI/SSP program resulting from unanticipated increases in assessed valuations in 1978–79 of approximately 10 percent. This cost was defrayed from the General Fund.

Department of Social Services
DEPARTMENTAL SUPPORT

Item 282 from the General Fund — Budget p. 768

Requested 1979–80	$34,444,087
Estimated 1978–79	26,626,086
Actual 1977–78	N/A
Requested increase $7,818,001 (29.4 percent)	
Total recommended reduction	$1,457,067

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Indo-Chinese Refugee Assistance Program.* Recommend the Department of Social Services report to the fiscal committees during budget hearings on the likelihood that the federal government will provide 100 percent funding for the Indo-Chinese Refugee Assistance program during 1979–80. 746
2. *Special Consultants. Reduce by $45,000.* Recommend reduction of $45,000 from the General Fund and $45,000 from federal funds by eliminating temporary help funding for special consultants. 748
3. *Title XX Training Contracts.* Recommend reduction of $341,250 in federal funds by eliminating Title XX training contracts. 749

DEPARTMENTAL SUPPORT—Continued

4. *Attorney General Services. Reduce by $73,892.* Recommend a reduction to eliminate overbudgeting for Attorney General services. 749
5. *Reorganization Report.* Recommend the Department of Social Services submit a reorganization report to the Legislature prior to budget hearings in order to comply with language in the Budget Act of 1978. 749
6. *Disability Evaluation Accountants.* Recommend reduction of $93,301 in federal funds by deleting six proposed positions for disability evaluation accounting. 750
7. *Program Development Division. Reduce by $219,244.* Recommend elimination of a CEA II and a Staff Services Manager II in the deputy director's office of the Program Development Division for a savings of $50,187 in General Funds and $32,087 in federal funds. Recommend transfer of function and remaining positions in the Program Development Division to the Administration Division. Recommend elimination of funding for public assistance demonstration projects for a reduction of $169,057 from the General Fund and $169,057 from federal funds. 750
8. *Fair Hearing Positions. Reduce by $323,586.* Recommend deletion of 18 proposed fair hearing positions for a reduction of $323,586 from the General Fund and $226,730 from federal funds. 753
9. *Food Stamp Outreach. Reduce by $37,408.* Recommend deletion of 3 positions for food stamp outreach for a reduction of $37,408 from the General Fund and $37,408 from federal funds. Withhold recommendation on funds proposed for food stamp outreach contracts. 755
10. *Social Service Positions. Reduce by $757,937.* Recommend deletion of 29.5 proposed social service positions. 755
11. *Rural Youth Employment Project.* Recommend continuation of eight positions for a limited term ending September 30, 1979. 757
12. *Federally Funded Positions.* Recommend supplemental language be added to instruct the Department of Social Services to immediately terminate positions for the Indo-Chinese Refugee Assistance program and the Office of Child Abuse Prevention in the event federal funds for these programs are discontinued. 757
13. *Caseload Movement and Expenditure Report.* Recommend current law be amended deleting requirement that monthly Caseload Movement and Expenditure Report be submitted to the Joint Legislative Budget Committee. 760
14. *Control Section 32.5—Proposed AFDC Regulations. Reduce by $1,698,500.* Recommend control section limit be reduced by $1,698,500 for the cost of proposed regulations which have not been issued. 769

15. *Control Section 32.5—AFDC Cost-of-Living. Increase by $6,478,800.* Recommend that current law for calculating AFDC cost-of-living adjustment be changed and that control section limit be increased by $6,478,800 to provide a 6.91 percent cost-of-living increase. 770

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977, created a new Department of Social Services effective July 1, 1978. This department has been designated the single state agency for purposes of administering welfare and social services programs supported by state and federal funds. This department retained the welfare operations function of the former Department of Benefit Payments, and assumed responsibility for the disability evaluation, community care licensing and social services functions of the former Department of Health.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes $34,444,087 from the General Fund for support of the Department of Social Services in 1979–80. This is $7,818,001, or 29.4 percent, more than estimated General Fund expenditures for the current year. Table 1 identifies the major components of this General Fund cost increase. Total program expenditures, including federal funds and reimbursements, are projected at $89,114,809 which is $764,133, or 0.9 percent, more than total estimated expenditures in the current year. Of this amount, $61,686,332 is for personal services and $27,428,477 is for operating expenses and equipment.

Table 1

Proposed General Fund Adjustments for the Department of Social Services' State Operations Budget

	Adjustment	*Total*
A. Budget Base		$26,626,086
B. Budget Adjustments		
1. Employee benefits	$489,548	
2. Merit salary adjustment	143,921	
3. 5 percent price increase	395,728	
4. Transfer from social services item to consolidate Title XX funds	5,529,808	
5. Current year one-time costs	−1,689,783	
6. Budget change proposals	2,963,779	
7. Reduction for funds separately identified in Item 283	−15,000	
Total, Budget Increases		7,818,001
Proposed Total General Fund, Item 282		$34,444,087

The requested departmental support expenditures for 1979–80 include the transfer of $5,529,808 to consolidate Title XX funds.When the General Fund budget totals are adjusted for this change and the $1.7 million in current year one-time costs, proposed expenditures for state operations increase $4.0 million, or 14.9 percent, over the current year.

DEPARTMENTAL SUPPORT—Continued

DEPARTMENTAL BUDGET ISSUES

Reorganization Funding Transfer

Item 255 of the Budget Act of 1978 appropriated $3 million from the General Fund to the Department of Finance to augment the budgets of the Departments of Health Services and Social Services. These funds were to be used to offset any adjustments in federal financial participation resulting from the reorganization of the Health and Welfare Agency.

During the current year, the Department of Finance approved a budget revision submitted by the Department of Social Services requesting that $1.5 million be transferred from Item 255 to its departmental support item. These funds were used to offset an anticipated deficit resulting from a shortfall in federal funds of $1.5 million. This resulted in no net change in the department's support budget, but it increased the General Fund support by $1.5 and decreased federal support by the same amount. The Governor's Budget proposes to continue the $1.5 million General Fund augmentation in fiscal year 1979–80.

Control Sections 27.1 and 27.2

Control Sections 27.1 and 27.2 of the Budget Act of 1978 require that the Department of Finance restrict expenditures for personal services and operating expenses and equipment in order to achieve a specified funding reduction in the current year. The proposed budget for the department indicates that the following savings will be achieved pursuant to these provisions:

a. $1.2 million savings in operating expenses and equipment, of which half is federal funds and half is state funds.

b. $2.2 million savings in personal services, of which half is federal funds and half is state funds.

These reductions are to be made in the current year and to be continued as permanent reductions in the budget year. The budget indicates that reductions in operating expenses and equipment will be achieved in the areas of printing, electronic data processing, general expense, contractual services, and communications. The budget also indicates that reductions in personal services will be achieved by the elimination of 114.6 personnel-years. However, the department has not yet identified which positions will be eliminated. We will review the proposed position reductions when that information becomes available.

Indo-Chinese Refugee Assistance Program

We recommend that the Department of Social Services report during the budget hearings on the likelihood that the federal government will provide 100 percent funding for the Indo-Chinese Refugee Assistance Program during 1979–80.

The Indo-Chinese Refugee Assistance Program (IRAP) was established by federal law and policy directives to provide benefits to eligible Indo-Chinese refugees. In 1978–79, IRAP expenditures are estimated to total $68.8 million. These expenditures are 100 percent federally funded. As a result of recent federal legislation (PL 95-549), federal funds for this program will terminate on October 1, 1979, and Indo-Chinese refugees who are eligible will be transferred to other assistance programs.

The Governor's Budget assumes that current federal law will be amended to continue 100 percent federal funding of the IRAP program through the remaining three quarters of 1979–80. If federal law is not changed, however, state expenditures to replace federal IRAP funds could increase above the budget level by anywhere from $29.3 million to $36.9 million.

Table 2
Local Assistance and Administrative Costs for Indo-Chinese Refugees
1979–80
(In Millions)

		Federal			
Program	*Total*	*Normal Share*	*1st Quarter IRAP Funding*	*State*	*County*
Local Assistance					
AFDC	$24.1	$11.1	$2.6	$7.0	$3.4
SSI/SSP	7.6	3.9	0.9	2.8	—
Residual	5.7	—	5.7	—	—
General Relief	6.4	—	—	—	6.4
Medi-Cal	27.0	4.1	5.7	17.2	—
Social Services	7.2	—	2.3	3.8	1.1
Subtotal	$78.0	$19.1	$17.2	$30.8	$10.9
Administration					
AFDC	2.1	1.0	0.3	0.4	0.4
Residual	0.5	—	0.5	—	—
General Relief	3.1	—	—	—	3.1
Medi-Cal	2.7	1.0	0.4	1.3	—
State Support	0.8	—	0.2	0.6	—
Subtotal	$9.2	$2.0	$1.4	$2.3	$3.5
Total	$87.2	$21.1	$18.6	$33.1	$14.4

The state would be *required* to provide $29.3 million in accordance with existing state funding requirements for welfare and Medi-Cal programs. The state would not be obligated to replace the remaining $3.8 million for IRAP social services in the event federal funds were not forthcoming but the Legislature might choose to make these funds available as well. Finally, if the Legislature adopted a policy of fully reimbursing counties for the cost of AFDC grants and administration, as it did for the current year, state expenditures would have to rise by another $3.8 million.

It is our understanding at this time that no federal legislation has been introduced to continue full federal funding for IRAP through the last three quarters of 1979–80. Therefore, we recommend that the department report during the budget hearings on the likelihood that federal funds will be available for IRAP during 1979–80.

DEPARTMENTAL SUPPORT—Continued

Use of Special Consultants

We recommend that Item 282 be reduced by $90,000 consisting of $45,000 from federal funds and $45,000 from the General Fund, by eliminating temporary help funding for special consultants.

The Governor's Budget contains $1,262,358, all funds, for 73.5 temporary help positions. This is a decrease of $7,047, or 0.6 percent, below current-year expenditures. These funds are used for staff costs relating to: (a) overtime and seasonal temporary help salaries, (b) vacation earnings of employees who leave the department, (c) recruitment and hiring of minority employees, (d) overlapping of positions to provide training for new employees and (e) special consultants.

We requested the Department of Social Services to identify how special consultants had been used during fiscal year 1977–78 and the first six months of fiscal year 1978–79. We received information on seven consultants. Based on our review of this information, we have identified the following problems with the department's policy regarding special consultants:

1. The salaries and hiring periods for some of the consultants have been excessive. For example, the department hired one consultant for $200 per day for a period of 5.5 months for a total expenditure of $24,200. On an annualized basis, this amounts to $52,800 per year.

2. The products produced by some of the consultants have been of questionable value. For example, the department hired two consultants to prepare reports on welfare training and disability evaluation, one for $79 per day for a total of 217 days and one for $177 per day for a total of 132 days. Although draft reports were prepared, they were never put into final form. In addition, the department was unable to identify what action it had taken relative to the product prepared by each consultant.

3. In some cases, special consultant positions have been used inappropriately. For example, in two instances the department hired individuals as consultants for a period of nine months each, prior to their appointments to exempt positions within the department. The State Administrative Manual states that temporary help positions are to be used for temporary, seasonal or intermittent uses as contrasted to longer-term, more permanent staffing needs.

The level of funding proposed for temporary help positions in the proposed budget is based on prior year expenditures rather than on an identification of specific budget year needs. Based on information provided by the department, we estimate that the department expended $91,289 for special consultants during fiscal year 1977–78. Current year expenditures appear to be about the same. Because of the problems we have identified regarding how these positions have been used in the past, and because the department is unable to justify the use of special consultants in the budget year, we recommend that Item 282 be reduced by $90,000, all funds.

Title XX Training Contracts

We recommend that Item 282 be reduced by $341,250 in federal funds for Title XX training contracts.

The Governor's Budget proposes a total of $341,250 in federal funds for Title XX training contracts. Of this amount, $210,000 is for departmental staff to coordinate Title XX training activities and $131,250 is for community rehabilitation training. This is an increase of $16,250, or five percent, over estimated current year contract expenditures. However, the department indicates that no contracts have been negotiated to date for expenditure of funds in the current year.

In Item 287, Special Social Service Programs, we have identified a number of problems with the department's current management and utilization of Title XX training funds. Based on the problems discussed in that item and based on the fact that the department is unable to identify what specific positions or contracts will be funded in the current or budget year, we recommend Item 282 be reduced by $341,250 in federal funds.

Attorney General Services

We recommend a reduction of $73,892 from the General Fund because of overbudgeting for Attorney General services.

The budget proposes $73,892 to reimburse the Attorney General for legal services related to adoptions. We recommend that this amount be deleted because the Attorney General has no staff to perform this function and Item 47, Department of Justice, does not contain reimbursements for these services. In addition, the budget proposes to continue 1.5 positions established administratively in the current year to provide legal services for the adoptions program.

Reorganization Report

We recommend that the Department of Social Services submit an up-to-date reorganization report to the Legislature prior to budget hearings in order to comply with language in the Budget Act of 1978.

Section 28.01 of the Budget Act of 1978 required that the department submit a preliminary reorganization report to the Legislature by August 1, 1978. This report was to identify the department's internal organization, utilization of staff and resources, positions to be added or reclassified, significant budget or organizational changes, and proposed expansion or reduction of departmental programs. In addition, the department was required to submit a final reorganization report to the Legislature by January 1, 1979.

The Department of Social Services has not submitted at this time an approved preliminary or final report to the Legislature. As a result, the Legislature does not have an approved departmental organization chart to use as a basis for analyzing proposed budget changes. The department indicates that it will soon submit a report consistent with the departmental organization reflected in the budget, but that it is now planning a second major departmental reorganization which will be presented to the Legislature at a later time. In order to comply with Budget Act language, we recommend that the department submit an up-to-date reorganization report to the Legislature prior to budget hearings.

DEPARTMENTAL SUPPORT—Continued

PROPOSED STAFFING CHANGES

Table 3 identifies proposed departmental position changes, by division, for fiscal year 1979–80. These changes are discussed below.

Disability Evaluation Accounting

We recommend that Item 282 be reduced by $93,301 in federal funds by deleting six proposed positions for disability evaluation accounting.

The budget proposes $93,301 in federal funds to establish six positions to process invoices for the Disability Evaluation program. According to the department's proposal, 13 accounting positions were required for disability evaluation when that program was a part of the former Department of Health. However, when the Department of Social Services assumed responsibility for the program, only seven accounting positions were identified and transferred.

It is our understanding that the Health and Welfare Agency made an intensive effort during the reorganization process to properly identify and transfer functions among the appropriate departments. If the positions which had been used to provide accounting support for disability evaluation were improperly reduced by six positions, those positions and funds should be identified and transferred from the Department of Health Services to the Department of Social Services. We therefore recommend that Item 282 be reduced by $93,301 in federal funds by deleting six proposed positions. If the Department of Health Services believes that it can justify an increase in positions, it should request that new positions be established, as provided for in the State Administrative Manual.

Program Development Division

We recommend elimination of a CEA II and a Staff Services Manager II in the deputy director's office of the Program Development Division for a savings of $50,187 in General Funds and $32,087 in federal funds. We also recommend that the remaining positions in the Program Development Division be transferred to the Administration Division.

We recommend that the budget be reduced by $169,057 in General Funds and $169,057 in federal funds for demonstration projects.

Program Development Division. The Program Development Division within the department is responsible for identifying, developing, testing and evaluating alternative plans and programs. These activities are carried out through two branches: (1) the Office of Planning and (2) the Management Analysis Branch. The Office of Planning includes the Demonstration Projects Bureau and the Research Bureau. The Demonstration Projects Bureau is responsible for monitoring and evaluating demonstration projects which are funded by the state and carried out by the counties, colleges and universities, and recipient organizations. The purpose of the demonstration projects is to improve the administration of public assistance programs. The Research Bureau is responsible for performing short and long term analytical studies.

Table 3

Department of Social Services
Proposed Position Changes for Fiscal Year 1979–80

Division	Existing Positions	Proposed Position Changes	Total Positions	*Fiscal Effect of Proposed Changes* General Fund	Federal Funds	Reimbursements	Total
1. Director's Office	16.5	—	16.5	—	—	—	—
2. Government and Community Relations	54	−2	52	$−52,969	—	—	$−52,969
3. Welfare Program Operations	124.2	14.3	138.5	366,378	$423,117	—	789,495
4. Legal Affairs	135.5	22.5	158	545,028	196,573	—	741,601
5. Adult and Family Services	209.5	48	257.5	690,309	496,613	—	1,186,922
6. Administration	640.3	13	653.3	43,039	123,458	$34,346	200,843
7. Licensing and Assessment	357.6	46.5	404.1	1,185,968	—	57,332	1,243,300
8. Program Development	29	−10	19	−136,305	−87,145	—	−223,450
9. Disability Evaluation	1,270	21	1,291	322,331	—	269,101	591,432
10. Temporary Help	73.5	0	73.5	—	—	—	—
TOTAL	2,910.1	153.3	3,063.4	$2,963,779	$1,152,616	$360,779	$4,477,174

DEPARTMENTAL SUPPORT—Continued

Table 4 shows the number and classification of positions in the Program Development Division for 1978–79 and 1979–80 as identified by the Department of Social Services. In the current year, the division consists of 29 positions. The Governor's Budget proposes to eliminate 10 positions from the division as of July 1, 1979. Of the 10 positions, one is a secretary within the deputy director's office and nine are within the Office of Planning. These include two Associate Governmental Program Analysts, four Staff Services Analysts, one Office Technician and two Office Assistant II positions. As a result of these reductions, 19 positions remain in the division, including two in the deputy director's office, five in the Office of Planning and 12 in the Management Analysis Branch.

Table 4
Program Development Division
Authorized Positions

	Authorized Positions 1978–79	*Authorized Positions* 1979–80
Program Development Division:		
Deputy Director		
CEA II	1	1
Staff Services Manager II	1	1
Secretary	1	0
Subtotal	3	2
Office of Planning		
Staff Services Manager III	1	1
Staff Services Manager II	2	2
Staff Services Manager I	1	1
Associate Governmental Program Analyst	2	0
Staff Services Analyst	5	1
Office Technician	1	0
Office Assistant II	2	0
Subtotal	14	5
Management Analysis Branch		
Staff Services Manager II	1	1
Staff Services Manager I	2	2
Associate Management Analyst	4	4
Associate Governmental Program Analyst	1	1
Staff Services Analyst	3	3
Secretary	1	1
Subtotal	12	12
Total	29	19

We have two concerns with the Program Development Division as proposed for 1979–80. First, we do not believe that this unit of nineteen positions justifies division status. The Program Development Division has the fewest number of authorized positions with the exception of the Executive Division. Most divisions within the department consist of more than 150 authorized positions. Second, the division as proposed would have a CEA II and a Staff Services Manager II supervising a staff of only seventeen positions. We therefore recommend that seventeen positions and the functions of the Program Development Division be transferred to the Administration Division, and that the CEA II and Staff Services Manager II in the deputy director's office be eliminated.

Office of Planning. The number of authorized positions for this unit has been reduced from 14 in the current year to five in the budget year. As a result of this action, we have several concerns with the proposed structure of the Office of Planning. First, we cannot determine how the functions of this office will be distributed among the remaining five positions.

Second, it is unclear how the remaining positions will be able to achieve the goals of the office. For example, the department indicates that there will be two positions instead of six in the demonstration unit responsible for overseeing a proposed budget of $338,114 for demonstration projects. In addition, there will be two positions assigned to the Research Unit which was assigned seven positions during the current year.

Third, the office will consist of an unusually large number of high level professional positions including one Staff Services Manager III, two Staff Services Manager II, one Staff Services Manager I and a Staff Services Analyst.

Prior to budget hearings, we will seek clarification of the functions of the remaining five positions in the Office of Planning.

Demonstration Projects. The Governor's Budget proposes $338,114 for public assistance demonstration projects. This is the same amount which is estimated to be expended during 1978–79. The purpose of the projects is to improve the administration of public assistance programs.

We have several concerns with the Governor's proposal. First, the department is unable to identify the projects to be funded in 1979–80 because its screening and selection process does not start until after the Governor's Budget is proposed. Second, although most of the $338,114 appropriated for demonstration projects for 1978–79 has been committed in the current year, only two of the proposed five projects have been started as of January 1979.

Because the department is unable to identify how the proposed funds for demonstration projects will be spent in the budget year, and because it is likely that projects started in the current year will carry over into the budget year, we recommend that the $338,114 for demonstration projects in the proposed budget be eliminated.

Fair Hearing Positions

We recommend the deletion of 18 proposed fair hearing positions resulting in a reduction of $323,586 in General Funds and $226,730 in federal funds.

Recipients of aid and applicants for aid have the right to appeal decisions by county welfare departments which they believe adversely affect their entitlements to assistance. The Office of Chief Referee conducts administrative hearings to judge the fairness of decisions made by county welfare department personnel in handling welfare cases. When a request for a fair hearing is made, the department schedules a hearing, notifies both the county and the claimant and assigns a hearing officer. After the hearing is concluded, the hearing officer writes a proposed opinion for

DEPARTMENTAL SUPPORT—Continued

adoption by the director.

The department proposes to add 13 hearing officers (Staff Counsel I) and 5 support staff (four Office Assistant IIs and one Office Services Supervisor I) due to projected workload increases in the fair hearing process. The department estimates there will be approximately 31,395 hearing requests filed in 1979–80. Of this amount, approximately 18,810 will be withdrawn and 12,585 will be heard and will require a written decision.

We have reviewed actual caseload data for the first five months of 1977–78 and 1978–79. Table 5 shows that the number of intake requests and decisions rendered for the first five months of 1978–79 is below that of the comparable period in 1977–78. If this trend continues in the current year, the department will receive somewhat fewer hearing requests and will issue fewer decisions in 1978–79 than in 1977–78.

Table 5
Fair Hearing Request Intakes and Decisions Rendered 1977–78 and 1978–79

	1977–78		*1978–79*	
	Year (actual)	*July – November (actual)*	*Year (estimate)*	*July – November (actual)*
Intakes	30,391	12,752	26,659	12,358
Decisions	9,559	4,367	9,009	3,754

The department states that new proposed Food Stamp Regulations, which will go into effect in January 1979, will result in a significant increase in hearings during the remainder of the current year and in the budget year. However, because there is no actual data available concerning the impact of these regulations, and because available data indicates that the current year workload will be slightly less than that in 1977–78, we are unable to recommend approval of the requested positions.

During 1977–78 and 1978–79 the department was authorized 50 hearing officer positions. It estimates that the workload productivity for both inexperienced and experienced hearing officers is approximately 215 cases heard and written per year. Based on 215 cases per hearing officer and assuming 9,559 decisions disposed of in 1977–78, the department's staffing level should have been 45 hearing officers (9,559 ÷ 215 = 45) rather than 50. Using the same methodology, the department's appropriate staffing level in 1978–79 would be 42 positions (9,009 ÷ 215 = 42) not 50 as currently authorized.

We are not recommending a reduction in the department's current budget, despite a possible lower fair hearings workload in 1978–79. We believe it is appropriate that the fair hearings unit be adequately funded to process appeals in the event a sudden unexpected surge in appeals occurs, as might happen when regulations change or the courts overrule existing procedures. However, we are recommending that the 18 positions proposed for fair hearings in 1979–80 be deleted.

Food Stamp Outreach Program

We recommend the elimination of two Associate Governmental Program Analyst positions and one Office Technician position for a reduction of $37,408 in General Funds and $37,408 in federal funds.

We withhold recommendation on the funds proposed for contracts with local community agencies to provide food stamp outreach services.

The budget requests $400,000 for the Food Stamp Outreach program. This amount consists of $200,000 in federal funds and $200,000 in General Funds. The General Fund money would replace Title II funds which were used in the current year. The budget also proposes to convert an Associate Governmental Program Analyst position from three-quarter to full-time. At present, the Food Stamp Outreach Unit is authorized one Staff Services Manager I, 3.7 Associate Governmental Program Analysts and one Office Technician.

The budget proposes to reduce funding for the Food Stamp Outreach Program from $767,611 in the current year to $400,000 in the budget year. This is a reduction of $367,611, or 47.9 percent, from the current year. Almost all of this reduction is for contracts with community agencies to provide outreach services.

We have several concerns with the proposed expenditures for the Food Stamp Outreach program. First, the budget proposes to reduce expenditures for contracts by $362,183, or 66 percent, but makes no corresponding reduction in the number of staff positions responsible for monitoring and evaluating these contracts. Therefore, we recommend that the Food Stamp Outreach Unit be reduced by two Associate Governmental Program Analyst positions (including the proposed .3 position) and one Office Technician. If adopted, this recommendation would leave one Staff Services Manager I and two Associate Governmental Program Analyst positions to monitor the remaining contract funds.

Second, the department is unable to specify how $191,137 of the $400,000 will be allocated among contractors for outreach activities during 1979–80. Because food stamp outreach activities are mandated by the federal government and because the department has not made a final decision as to the allocation of the funds for outreach activities, we withhold recommendation on the funds for contracts pending receipt of further information from the department.

Social Service Positions

We recommend that Item 282 be reduced by $757,937, by eliminating 29.5 proposed positions for social services.

Reorganization Transfer. The 1978–79 budget proposed that 251.7 social service positions be transferred from the Department of Health to the new Department of Social Services to implement the agency reorganization. These positions are reflected in Table 6. An additional number of administrative positions were also transferred. These transfers were subsequently approved by the Legislature. The proposed budget now indicates that only 209.5 positions are currently assigned to the Social Services Division, now called the Adult and Family Services Division, a reduction of 42.2 positions. In addition, there has been a significant redirection of posi-

DEPARTMENTAL SUPPORT—Continued

tions within the division. Because the department has not submitted a reorganization report in conformance with Section 28.01 of the 1978 Budget Act, it is impossible to identify how it has reassigned positions transferred from the Department of Health for social service functions.

Table 6
Comparison of Social Service Program Positions for Fiscal Year 1978–79 As Identified in Governor's Budget for 1978–79 and Governor's Budget for 1979–80

Social Services Program Component	*Current Year Positions* *Governor's Budget 1978–79*	*Current Year Positions* *Governor's Budget 1979–80*	*Change*
Division Office	9.1	2.0	−7.1
Resources Control	15.0	—	−15.0
Planning and Evaluation	43.0	23.0	−20.0
Adult Services			
a. In-Home Supportive Services	34.5	16.5	−18.0
b. Other	22.0	30.0	+8.0
Family and Children's Services	128.1	138.0	+9.9
Total	251.7	209.5	−42.2

Budget Proposal. The budget proposes a total General Fund appropriation of $757,937 for 29.5 new positions to administer social service programs. These positions are to be assigned as follows: (a) five positions in the Adult Services Branch to monitor county adult social service programs, (b) 5.5 positions to implement a quality control system for in-home supportive services in the Licensing and Assessment Division, (c) three positions to assist in policy development in the Family and Children's Services Branch, and (d) 16 positions to assist in the implementation of a $5 million improved 24-hour child protective services response system. This program proposal is discussed separately in Item 287, Special Social Service Program.

Because the department has not yet identified to the Legislature how positions transferred from the Department of Health have been reassigned, we have no basis for evaluating the department's request for an additional 29.5 positions for social services. For example, positions specifically assigned for in-home supportive services have dropped from 34.5 to 16.5 positions, a reduction of 18 positions. We asked the department to identify how those 18 positions have been redirected and to provide justification for each redirection. The department indicated that 16 of these positions have been reassigned within the division and two positions have been reassigned outside the division but did not provide justification for the redirections. As a result, we are not able to verify that positions which were approved by the Legislature originally for in-home supportive services are continuing to be used in that manner.

In addition, we have also identified some functions which are currently being performed within the Adult and Family Services Division even though the Legislature has never approved any positions to perform those functions. Most of these are in the area of demonstration projects. For these reasons, we recommend that Item 282 be reduced by $757,937, by eliminating 29.5 proposed positions for social services.

Rural Youth Employment

We recommend continuation of eight positions for the Rural Youth Employment Project for a limited term ending September 30, 1979.

The budget reflects the transfer of eight positions for the Rural Youth Employment (RYE) Project from the Lieutenant Governor's Office to the Department of Social Services. This transfer was made pursuant to Executive Order D-3-78 effective January 3, 1979. These positions are to be funded from $94,982 in federal funds made available for the project in the budget year from the U.S. Department of Labor.

The RYE Project was established during the current year under authority of Section 28 for the period from September 1, 1978 through September 30, 1979. The Department of Social Services states that it has no plans to continue the project past that date. We recommend approval of the continuation of these positions in the Department of Social Services, but further recommend that they be approved for a limited term ending September 30, 1979 to coincide with the termination of the project.

Federally Funded Positions

We recommend that supplemental language be added to instruct the Department of Social Services to immediately terminate positions for the Indo-Chinese Refugee Assistance program and the Office of Child Abuse Prevention in the event federal funds for these programs are discontinued.

The budget proposes to continue 15 federally funded positions as follows: (a) 10 positions in the Office of Child Abuse Prevention to be funded from $285,089 in federal child abuse prevention funds, and (b) five positions to provide assistance for the Indo-Chinese Refugee Assistance program (IRAP) to be funded from $147,215 in federal IRAP funds.

During the current year, the IRAP positions were established administratively using federal funds. The child abuse positions have been established on a one-year limited term basis each year for a number of years. Since all of these positions are required for administration of federally funded programs, we recommend approval. However, we further recommend that supplemental language be added to the Budget Act to instruct the department to immediately terminate all of these positions in the event federal funds for these programs are discontinued. As previously stated, while the budget reflects full federal financing of IRAP during the budget year, existing law would terminate federal funding as of October 1, 1979.

Other Proposed Changes

Adoptions Legal Support. The budget proposes to continue 1.5 positions which were administratively established in the current year to provide legal support to the adoptions program. These positions were funded in the current year by $42,365 from the General Fund which was redirect-

DEPARTMENTAL SUPPORT—Continued

ed from departmental operating expenses. This redirection was continued in the budget year. As a result, the budget proposes no additional funds for these positions.

Adoptions Investigations. The budget proposes $53,202 from the General Fund to continue two adoption positions which were administratively established in the current year. These positions will be used to investigate irregular adoptive activities.

Transfers to the Health and Welfare Agency. The budget proposes to transfer a CEA I position and clerical position from the Government and Community Relations Division to the Health and Welfare Agency to assist the Rural and Migrant Affairs Coordinator. The proposed use of these positions is discussed in Item 35, Support for the Secretary of Health and Welfare.

Community Care Licensing. The budget proposes to continue 46 positions and to establish one new position for the Community Care Licensing program, for a total of 47 positions. The 46 continuing positions were established under the authority of Section 28 of the 1977 Budget Act during fiscal year 1977–78, and continued in fiscal year 1978–79 using federal funding from Title II of the Public Works Employment Act. The original proposal indicated that these positions were to become on-going state-funded positions beginning July 1, 1979. Of the 46 continuing positions, 31 will be used to provide investigative support for licensing enforcement, eight will be used to provide legal support, five will be used to evaluate current state licensing procedures, and two will be used to update a facilities information system. The one new position will be used to assist in the functions of the client's rights office. The budget proposes a total of $1,329,619 from the General Fund for the continuing and proposed positions. Included in this amount is $40,000 to provide medical and professional consultants to assist in facilities review.

Life Care Contracts. The budget proposes two positions to conduct management audits of life care facilities and to assist in the implementation of Chapter 1240, Statutes of 1978, regarding the supervision of life care contracts. These positions are to be funded from $57,332 in federal Title II funds. The department indicates that these positions will be ongoing and will need to be supported from the General Fund beginning July 1, 1980.

Disability Evaluation Determinations. The budget proposes $591,432, all funds, to establish 21 positions for the Disability Evaluation program. Of this amount, $322,331 is from the General Fund and $269,101 is from reimbursements from the Health Care Deposit Fund made available through the Department of Health Services. Nine of the positions will be used to process disability evaluations for the increasing caseload in the medically needy portion of the Medi-Cal program. The remaining 11 positions are to be used to process the increased number of medically indigent applicants referred to the medically needy program. The increase is due to a revision in the referral application procedures. The department estimates that 10 percent of medically indigent cases, which are funded 100 percent from the General Fund, are potentially eligible for the medically needy program which is funded by 50 percent federal funds and 50 percent state funds. This assumption is being tested in a demonstration project, and conclusive results are expected in March 1979. We will be reviewing the evaluation of the project when it is available.

State Council and Area Boards on Developmental Disabilities. The budget proposes to establish two accounting technician positions to provide staff support for the State Council and Area Boards on Developmental Disabilities. Chapter 432, Statutes of 1978, transferred responsibility for providing administrative support for the council and boards from the Department of Developmental Services to the Health and Welfare Agency. The agency has designated the Department of Social Services to provide such services. The two positions are to be funded from $34,346 in reimbursements from federal funds made available to the state council for administrative support. A further discussion of these programs is contained in Item 271, Department of Developmental Services.

Positions for the Federal Program Operations Bureau. The department proposes to permanently establish three Associate Governmental Program Analyst positions to assist in monitoring the state's participation in the SSP program. These positions are proposed to cost $96,088 in 1979–80, of which $74,949 will be from the General Fund and $21,139 will be federal funds.

Program Review and Fraud Prevention Branch. The department is proposing to permanently establish three Associate Governmental Program Analyst positions in the Program Review and Fraud Prevention Branch, and to replace Title II funds with General Funds. One position would be responsible for maintaining and developing various fraud detection systems. The remaining two positions would assist in monitoring county fraud prevention programs. The three positions were funded through Title II funds in the current year. General Fund costs in 1979–80 for these positions would be $47,542 and federal fund costs would be $43,885.

Minimum Income Level Maintenance Unit. The budget includes $83,534 and four positions for a minimum income level maintenance unit within the Federal Program Operations Bureau. The positions include one Associate Governmental Program Analyst and three Management Services Technicians. These positions are proposed to be limited term and federally funded. The purpose of the positions is to comply with federal requirements to recalculate mandatory state supplemental payments for specified SSI/SSP recipients.

AFDC—Boarding Homes and Institutions Positions. The budget proposes three positions for the AFDC Program Management Branch to expand and improve the department's monitoring and control of the AFDC Boarding Homes and Institutions program. The positions will cost $87,773, of which $43,887 will be from the General Fund and $43,886 will be federal funds.

DEPARTMENTAL SUPPORT—Continued

Monthly Reporting By Counties

We recommend that Section 10809.5 of the Welfare and Institutions Code, which establishes certain reporting requirements by the counties, be amended.

Section 10809.5 of the Welfare and Institutions Code requires county welfare departments to submit each month a copy of the Caseload Movement and Expenditure Report to the Department of Finance and the Department of Social Services. The Department of Finance is required to provide this information immediately to the Joint Legislative Budget Committee. Each month the Joint Legislative Budget Committee receives a copy of each county's monthly report.

When this reporting requirement was enacted in 1971, the Legislature was not receiving timely and complete data on caseloads and costs from the department. Since 1971, relations between the department and the Legislature have improved to the point where legislative staff receive data and estimates shortly after they are requested. Therefore, there is no longer any need for the Joint Legislative Budget Committee to receive each county's individual report. Because there is a cost associated with providing these unneeded reports, we recommend that Section 10809.5 of the Welfare and Institutions Code be amended to delete the requirement that a copy of the Caseload Movement and Expenditures Report be submitted to the Joint Legislative Budget Committee.

STATE ADMINISTRATION AND FUNDING OF MEDI-CAL AND PUBLIC ASSISTANCE PROGRAMS

Impact of Proposition 13

Passage of Proposition 13 significantly reduced the amount of revenues from property taxes available for local governments. Table 7 presents the estimated effect of Proposition 13 on county property tax revenues. County property tax revenues totaled $10.5 billion in 1976–77. In 1977–78, this revenue source totaled $11.4 billion, an increase of $939 million, or 8.9 percent. As a result of passage of Proposition 13, county property tax revenues for 1978–79 are estimated to total $5.6 billion, a decrease of $5.9 billion, or 51.5 percent.

Table 7
County Property Tax Revenues
1976–77 Through 1979–80
(In Millions)

	1976–77		*1977–78*		*1978–79*	
	Amount	*Percent Change*	*Amount*	*Percent Change*	*Amount*	*Percent Change*
County Property Tax Revenues..	$10,509	—	$11,448	8.9%	$5,552	−51.5%

Enactment of Chapter 292

In response to the passage of Proposition 13, the state assumed most of the county share of welfare program costs in 1978–79 through enactment of Chapter 292, Statutes of 1978 (SB 154). This act requires the state to pay:

(a) the county share of the State Supplementary Payment (SSP) program, (b) the county share of the unemployed and family group components of the Aid to Families with Dependent Children (AFDC) program, and (c) 95 percent of the county nonfederal share of the boarding homes and institutions component of the AFDC Program. The state is also required to pay the county cost for administration of (a) the AFDC program, (b) the Child Support Enforcement program, and (c) the Food Stamp program. The state also assumed the county share of Medi-Cal costs in 1978–79.

The Governor proposes to continue a program of fiscal relief for counties on a one-year basis in 1979-80. It is our understanding that the funds for this relief will be contained in a separate bill as yet unidentified. This relief will once again be based on the counties' Medi-Cal and welfare costs. The Governor, however, proposes to change the sharing ratio for the AFDC-BHI component from 95 percent state/5 percent county in 1978–79 to 50 percent state/50 percent county in 1979–80. The administration proposes to compensate for the additional costs by increasing the amount available to counties in block grants from $436.0 million in the current year to $498.4 million in the budget year.

Table 8 shows the county cost for the Medi-Cal and welfare programs assumed by the state in 1978–79. Table 8 also shows the amount of county welfare and Medi-Cal fiscal relief proposed by the Governor for 1979–80.

Table 8

Estimated Fiscal Relief for the County Share of Medi-Cal and Welfare Program and Administrative Costs 1978–79 and 1979–80 (In Millions)

Program	*1978–79*[a]	*1979–80*
Medi-Cal	$440.0	$484.0
SSI/SSP	181.6	200.4
AFDC Grants:		
Family Group and Unemployed Parents	250.3	271.8
Boarding Homes and Institutions	88.0	42.4
AFDC Administration	59.2	63.8
Child Support Enforcement Administration	25.2[b]	29.3
Nonassistance Food Stamp Administration	21.5	21.5
Total	$1,065.8	1,113.2

[a] Based on December 1978 estimates.

[b] The Department of Social Services states that this amount will be offset by $7.2 million from the federal government for the costs incurred in providing child support enforcement services to non-AFDC recipients.

As a result of Chapter 292, in 1978–79 the state is funding the county share of the Medi-Cal Program and the majority of the county welfare grant and administrative costs while the counties continue to administer several of the programs. The Governor proposes to continue this arrangement on a one-year basis in 1979–80. The Governor's proposal provides a temporary answer to the question of who should fund and administer welfare programs in California.

DEPARTMENTAL SUPPORT—Continued

Chapter 1241, Statutes of 1978, requires the Department of Social Services to prepare a report on state administration of welfare and social services programs that are now administered by county governments. It requires the department to submit a final report with its recommendations on state administration to the Legislature by March 15, 1979. The act states that the report is to determine whether state administration is in the best interest of recipients, taxpayers and efficient administration. In addition, the department is required to make recommendations on and prepare an estimated schedule for implementation of state administration. It is also required to consider a number of issues in its report including: payment systems and data management, county contracts, status of county employees, functions of programs, feasibility of contracting with counties to perform administrative functions, and the cost of a transfer to state administration.

In accordance with the requirements of Chapter 1241, the department submitted a preliminary report to the Legislature on October 13, 1978. We reviewed the department's interim report and reported to the Legislature on our findings and recommendations in December 1978. When the department's final report is submitted, we will review the findings and recommendations of the report. In the meantime, we offer a number of recommendations and observations regarding state administration of welfare.

1. SSI/SSP and Medi-Cal Programs

The SSI/SSP program provides cash grants to eligible aged, blind and disabled individuals. The Medi-Cal program provides health services to welfare recipients, the medically needy and the medically indigent.

The costs for both programs are shared by the federal, state and county governments to varying degrees. The federal government funds the SSI portion of the SSI/SSP grant while the state and counties finance the cost of the SSP component. The federal government funds approximately 50 percent of the Medi-Cal program with the exception of the medically indigent category which is funded 100 percent by the state. County costs for both the SSP and Medi-Cal programs are based on a formula which ties the county share to changes in assessed valuation of property.

We recommend that the state permanently assume the county costs of the SSI/SSP and Medi-Cal programs for the following reasons:

First, the counties do not administer these programs and have no direct control over program costs or content.

Second, the equivalent tax rates which support county contributions toward these programs vary significantly among counties, thereby placing an unequal burden upon taxpayers in different counties. Table 9 shows the tax rate equivalents which counties would have to set if they were to levy a separate property tax to cover their Medi-Cal and SSI/SSP obligations. Table 9 shows, for example, that a homeowner in San Diego county contributed 20 cents per $100 of assessed value to the Medi-Cal program in 1977–78, while a homeowner in San Francisco county contributed 60 cents per $100. The homeowner in San Diego county paid 11 cents per $100 of assessed value to the SSI/SSP program in 1977–78 while a homeowner in San Francisco county paid 35 cents per $100.

Table 9
County Property Tax Equivalents °
For the County Share of Medi-Cal and SSI/SSP Programs
1977–78

	Tax Rate Equivalents	
County	*Medi-Cal*	*SSI/SSP*
Alameda	$0.37	$0.18
Alpine	0.05	0.03
Amador	0.25	0.05
Butte	0.34	0.18
Calaveras	0.25	0.08
Colusa	0.17	0.05
Contra Costa	0.31	0.14
Del Norte	0.36	0.18
El Dorado	0.16	0.09
Fresno	0.63	0.20
Glenn	0.22	0.07
Humboldt	0.42	0.20
Imperial	0.20	0.17
Inyo	0.27	0.07
Kern	0.48	0.14
Kings	0.49	0.20
Lake	0.12	0.16
Lassen	0.27	0.11
Los Angeles	0.49	0.20
Madera	0.41	0.24
Marin	0.15	0.06
Mariposa	0.11	0.06
Mendocino	0.34	0.16
Merced	0.52	0.20
Modoc	0.32	0.09
Mono	0.06	0.02
Monterey	0.37	0.10
Napa	0.23	0.14
Nevada	0.39	0.11
Orange	0.22	0.05
Placer	0.32	0.10
Plumas	0.21	0.06
Riverside	0.35	0.16
Sacramento	0.59	0.28
San Benito	0.24	0.08
San Bernardino	0.33	0.13
San Diego	0.20	0.11
San Francisco	0.60	0.35
San Joaquin	0.60	0.26
San Luis Obispo	0.46	0.12
San Mateo	0.28	0.09
Santa Barbara	0.33	0.12
Santa Clara	0.27	0.10
Santa Cruz	0.35	0.14
Shasta	0.25	0.17
Sierra	0.11	0.06
Siskiyou	0.38	0.11
Solano	0.19	0.14
Sonoma	0.38	0.13

DEPARTMENTAL SUPPORT—Continued

Stanislaus	0.56	0.23
Sutter	0.45	0.11
Tehama	0.26	0.13
Trinity	0.58	0.09
Tulare	0.56	0.25
Tuolumne	0.32	0.11
Ventura	0.20	0.07
Yolo	0.39	0.13
Yuba	0.60	0.32

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

2. AFDC-Family Group and Unemployed Parents (Costs for Grants and Administration) and Food Stamp Administration

The AFDC program provides cash grants for children and their parents or guardians whose income is insufficient to meet their basic needs. Eligibility is limited to families with children who are needy due to the death, incapacity, continued absence or unemployment of the parents or guardians. The Food Stamp program permits eligible low income families to purchase food stamps in order to increase their food buying power.

Because both the AFDC and Food Stamp programs are supervised by the state and administered by the 58 county welfare departments, the issues surrounding the financing and administration of these programs are more complex than those surrounding the SSI/SSP and Medi-Cal programs.

Many have argued that the counties have little or no control over program and administrative costs and therefore should be relieved of any financial participation. We do not believe this argument is completely accurate. Although grant levels and eligibility criteria for the AFDC program are set by the federal and state governments, the counties can

Table 10
AFDC Intake Actions Per Eligibility Worker and Costs Per Intake Action
1977–78

Counties	*Intake Actions Per Eligibility Worker*[a]	*Costs Per Intake Action*[b]
Alameda	26.08	$57.65
Contra Costa	27.07	58.73
Fresno	23.23	66.68
Los Angeles	22.81	72.51
Orange	25.06	54.53
Riverside	42.30	30.18
Sacramento	31.37	52.01
San Bernardino	30.68	41.11
San Diego	24.48	61.41
San Francisco	24.05	64.00
Santa Clara	29.26	51.37
Average	27.85	$55.47

[a] Excludes supervisors.
[b] Costs include eligibility workers' salaries and benefits. Excludes support costs.

significantly affect the cost and operation of the welfare system. The fact that eligibility worker productivity and costs vary significantly among counties suggests that there is considerable local control over the administration of welfare programs in California.

Table 10, for example, shows the number of intake actions per eligibility worker and the costs per intake action for the 11 largest counties during 1977–78. During this period, the average number of intake actions per eligibility worker in these counties was 27.85. This ranged from a high of 42.30 intake actions in Riverside to a low of 22.81 in Los Angeles. Table 10 also shows that the cost per intake action varies significantly among counties. The average cost per intake action for the 11 largest counties was $55.47. This cost varied from a high of $72.51 per intake action in Los Angeles to a low of $30.18 in Riverside.

Under a system of full state financing and county administration, there would be less incentive for the counties to control program and administrative costs. This is because a county which has a financial stake in the grant and administrative costs of the welfare program would be more inclined to keep payment errors low and administrative productivity high than a county with no financial investment in the program. Any proposed legislation which would relieve the counties of their grant and administrative costs for these programs should contain sanctions for high error rates and provisions to insure that counties improve their productivity.

3. AFDC—Boarding Homes and Institutions Program

The AFDC-BHI program provides cash grants for eligible children residing in foster care homes and institutions. Children are placed in foster homes or institutions because they have been abused, abandoned or neglected by their parents, or because they cannot be managed by their parents. Children are eligible to receive financial assistance under the AFDC-BHI program based primarily upon the limited income and resources of the parents.

Among the AFDC program components, BHI is unique for a number of reasons. First, although the state supervises the BHI program, counties have been given a great deal of discretion in administering it. For example, counties set their own rates of reimbursement for foster home care and establish the criteria for placing children in foster homes. (As a result of Chapter 292, in 1978–79 the department is required to approve requests by foster care providers for rate increases.)

Second, because counties set their own BHI rates, considerable variation exists among counties. For example, in 1976–77 the average monthly payment per recipient in the 11 largest counties was $357. This average payment ranged from a high of $454 in Contra Costa County to a low of $197 in Fresno County.

Third, Table 11 shows that while the level of state expenditures for the BHI program remained essentially unchanged during the last five years, the county share of this program more than doubled. During this period, county expenditures for this program grew at an average annual rate of 18.4 percent while total expenditure increases for this program averaged 13.5 percent.

DEPARTMENTAL SUPPORT—Continued

Table 11
Expenditures for the AFDC—Boarding Homes and Institutions Program 1973–74 Through 1978–79 (In Millions)

Fiscal Year	Total Amount	Total Percent Change	Federal Amount	Federal Percent Change	State Amount	State Percent Change	County Amount	County Percent Change
1978–79....	$151.2	14.5%	$33.9	23.7%	$23.4 [a]	−2.9%	$93.9 [a]	16.5%
1977–78....	132.1	8.4	27.4	−6.2	24.1	2.1	80.6	16.6
1976–77....	121.9	10.2	29.2	22.2	23.6	0.9	69.1	9.2
1975–76....	110.6	11.2	23.9	14.4	23.4	−3.7	63.3	16.6
1974–75....	99.5	23.4	20.9	26.7	24.3	4.3	54.3	33.1
1973–74....	80.6	—	16.5	—	23.3	—	40.8	—
Average Annual Change	13.5%		16.2%		0.1%		18.4%	

[a] Shows the state and county share as if Chapter 292 had not been enacted.

An increase in the state share of the BHI program should be accompanied by increased state control over the setting of reimbursement rates.

4. Child Support Enforcement Program

Federal and state law recognizes the obligation of parents to support their children. In order to ensure that parents meet this responsibility, the state has created a Child Support Enforcement program which is state supervised and locally operated. The district attorney's office in each county is responsible for the day-to-day activities related to determining paternity, locating absent parents and enforcing child support of both welfare and nonwelfare recipients.

Child support payments collected from absent parents whose children are receiving aid through the AFDC program are used to offset county, state and federal expenditures for this program. These collections are shared by federal, state and county governments based on their share of AFDC program costs.

In addition, incentive payments are made to counties and other states for collecting child support payments. The incentive payments paid to counties and other states total 27.75 percent of collections and consist of two components: (a) a federal incentive of 15 percent of collections and (b) a state incentive of 12.75 percent of collections.

The costs for administering the Child Support Enforcement program are shared by the federal and county governments, with the federal government paying 75 percent and the counties paying 25 percent. As a result of Chapter 292, the state assumed the county's share of the program for 1978–79.

Table 12 shows the amount of child support collections made in 1976–77 and 1977–78, the local assistance administrative costs related to these collections and the ratio of costs to collections. Because the federal and county governments share the local assistance costs for administering this program, the state has had no local assistance costs but has received substantial benefits. For example, the state had no local assistance costs in 1976–77 but received $19.0 million in child support payments collected by the counties from absent parents of welfare recipients. These payments were used to offset the state's AFDC expenditures. If the state assumes the counties' administrative costs, the state's ratio of collections to administrative costs will probably more closely approximate those of the counties shown in Table 12.

Table 12
Child Support Enforcement Collections and Local Assistance Administrative Costs
(Dollar Amounts In millions)

Fiscal Year	Distribution of AFDC Collections				Child Support AFDC Administrative Costs				Ratio of Collections to Administrative Costs			
	Total	Federal[a]	State[a]	County[b]	Total	Federal	State	County	Total	Federal	State	County
1976-77	$65.9	$19.9	$19.0	$27.0	$49.9	$37.4	—	$12.5	1.32:1.00	0.53:1.00	NA	2.16:1.00
1977-78	74.6	22.3	20.5	31.8	57.7	43.3	—	14.4	1.29:1.00	0.51:1.00	NA	2.20:1.00

[a] Net collections after incentive payments to counties.
[b] Includes federal and state incentive payments to the counties.

The state has not imposed adminstrative cost controls on the Child Support Enforcement program because the costs are shared by the federal and county governments. If the state assumes the county share of the administrative costs for the Child Support Enforcement program, the state should develop a plan to control those costs.

5. General Relief

Needy California residents who are not eligible for either SSI/SSP or AFDC benefits may receive aid through the county's general relief program. Section 17000 of the Welfare and Institutions Code requires counties to provide assistance to indigent individuals who lack adequate means of support. Each county is permitted to design its own general relief program including eligibility criteria and payment levels. The program and administrative costs for general relief are borne by the counties. This arrangement was unaffected by Chapter 292.

County costs for the general relief program are estimated at $112.9 million in 1978–79. Of this amount, $31.5 million (27.9 percent) is for administration and $81.4 million (72.1 percent) is for grants.

There is wide program variation in costs from county to county because counties are permitted to determine eligibility and grant levels. For example, the average grant for a one-person case in the 11 largest counties in June 1978 was $106. However, the average grant level for one person varied significantly among these counties ranging from $70 in Sacramento County to $141 in Santa Clara and $172 in Los Angeles. A state financed general relief program would probably eliminate such disparities by establishing a uniform grant level. However, this would probably result in increased costs for general relief statewide, and thus the increased state costs would probably exceed $112.9 million by a considerable amount.

DEPARTMENTAL SUPPORT—Continued

6. Social Services Programs

Counties are responsible for administering 10 mandated and 14 optional social services including in-home supportive services, child and adult protective services, information and referral and others. These services are supported by federal funds from Title IV-B and Title XX of the Social Security Act, by state funds and by county funds. In addition, counties are responsible for providing WIN-related social services. Total proposed county funding for Title IV-B and Title XX social services for fiscal year 1979–80 is $44,858,133. Total proposed county funding for WIN social services is $1,372,539. These costs were not taken over by the state as part of the state buy-out of county welfare costs during the current year which occurred as a result of Chapter 292, Statutes of 1978.

Social service programs currently administered by counties are characterized by a lack of program definition or minimum performance standard, lack of uniform needs assessment or allocation procedures, lack of quality or cost control mechanisms, and inadequate management information. If the state should assume responsibility for these programs, it would be faced with the task of attempting to define and standardize them, and to balance current funding and service inequities among the counties. Because federal Title IV-B and Title XX funds are capped, any additional support for program expansion would have to come from the General Fund.

AFDC CASH GRANTS-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 to fund the program. However, Section 32.5 of the proposed 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 a limit of $661,967,800 in Section 32.5, which is $49,603,800, or 8.1 percent, more than is estimated to be expended in the current year. In addition to these funds, there are state costs of $16,624,037 for AFDC grants in the current year and $14,449,400 in the budget year in Items 289 and 290 for executive and legislative mandated costs. Thus, the total General Fund cost for AFDC grants in fiscal year 1979–80 is estimated to be $676,417,200, which is an increase of $47,429,163, or 7.5 percent, over the amount estimated to be expended in the current year. Table 13 shows the amount proposed in Control Section 32.5 for AFDC cash grants and the major cost increases and offsetting savings.

AFDC Caseload

The Governor's Budget projects that the AFDC caseload will increase by 1.5 percent in 1979–80, as shown in Table 14.

Table 13

Proposed General Fund Budget Increases for AFDC GRANTS 1979–80

		Cost	Total
A.	Base Budget		$612,364,000
B.	Budget Adjustment		
	1. 6 Percent Cost-of-Living adjustment	$42,717,600	
	2. Increased Caseload due to Reduced Abortion Funding	5,368,600	
	3. Increased Costs due to Court Cases	1,033,400	
	4. Reduced Costs due to Minimum Wage Increases	−2,016,800	
	5. Basic Caseload and Grant Increases	5,632,700	
	6. Effect of Increased Child Support Collections	−5,209,300	
	7. Increased Costs for Child Support Incentive Payments	1,903,500	
	8. Other Adjustments	174,100	
	Total Budget Increase		49,603,800
Proposed General Fund, Section 32.5			$661,967,800

Table 14

AFDC Average Monthly Caseload (Person Count) 1979–80 Governor's Budget

			Change from 1978–79	
	1978–79	*1979–80*	*Amount*	*Percent*
AFDC Family Group	1,254,400	1,271,692	17,292	1.4%
AFDC Unemployed	164,111	167,833	3,722	2.3
AFDC Foster Children	27,895	28,742	847	3.0
AFDC Aid for Adoption of Children	1,960	2,017	57	2.9
Total	1,448,366	1,470,284	21,918	1.5%

Proposed Regulations—Garcia vs. Swoap

We recommend that the limit in Control Section 32.5 be reduced by $1,698,500 pending the issuance and review of new regulations.

The budget proposes a General Fund appropriation of $2,204,500 for proposed regulations resulting from the Garcia vs. Swoap case. Of this amount, $1,698,500 for grant supplemental payments is included within Control Section 32.5 and $506,000 for county implementation costs is included in Item 288.

Under existing regulations, a recipient is required to report income received in the prior month as a basis for determining the grant level to be received in the next month. However, a Superior Court has concluded that the department's prior-month budgeting system is inadequate and has required the department to submit revised regulations for its approval. The proposed 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. However, the regulations have not been issued because the department has appealed the case to the State Court of Appeal.

We recommend that the funds subject to Control Section 32.5 be reduced by $1,698,500 because: (a) the proposed regulations related to Garcia vs. Swoap have not yet been issued and (b) the case is presently pending in the court of appeal.

DEPARTMENTAL SUPPORT—Continued

Cost-of-Living Increases for AFDC Recipients

We recommend that:

1. *Current law be amended to establish December 1977 as the base month and year for calculating changes in the consumer price index (CPI) when determining the cost-of-living increase for AFDC recipients. The comparison month to be used annually thereafter would be December.*
2. *Current law be changed so that the percentage change in the consumer price index from December 1977 to the comparison month of December be applied against the AFDC grant levels in effect in June 1979.*
3. *The limit in Control Section 32.5 be increased by $6,478,800 to provide a 6.91 percent cost-of-living increase for AFDC recipients effective July 1, 1979, in order to reflect the change in the consumer price index between December 1977 and December 1978.*

Background. Assistance payments made under the Aid to Families with Dependent Children (AFDC) program consist of two components: (1) the basic grant and (2) the cost-of-living factor. The basic grant represents the cost of obtaining necessary living needs such as food, clothing, shelter and utilities. The basic grant is adjusted annually based on changes in the average of the separate consumer price indices for Los Angeles and San Francisco.

As passed by the Legislature, the Budget Act of 1978 contained funds for a 2.5 percent cost-of-living increase for AFDC recipients and state employees. In passing SB 154, the Legislature provided that the annual cost-of-living increase for AFDC recipients in 1978–79 would not exceed the cost-of-living adjustment provided state employees. The Governor eliminated from the Budget Act of 1978 all appropriations for state employee salary increases and funds for cost-of-living increases for AFDC recipients. As a result, AFDC recipients were not provided a cost-of-living increase in fiscal year 1978–79. Because of this action, we requested an opinion from the Legislative Counsel concerning the requirements of existing law relative to the cost-of-living increase in 1979–80. Specifically, we asked whether the actions taken for the current year permanently eliminated the requirement that a cost-of-living increase be provided to cover the increase in prices between December 1976 and December 1977.

The Legislative Counsel has concluded that: (1) the actions of the Legislature and administration merely suspended the cost-of-living adjustment for AFDC recipients for the 1978–79 fiscal year and (2) in the absence of intervening legislation, the cost-of-living adjustment provided on July 1, 1979, will have to include the cost-of-living adjustment which would have been provided on July 1, 1978. The Counsel's opinion states in part: "The suspension of the July 1, 1978, cost-of-living adjustments for the 1978–79 fiscal year with respect to AFDC . . . will result in increases on July 1, 1979, which would include the percentage increases which would otherwise have been included in the respective inoperative adjustments of 1978."

Section 11453 of the Welfare and Institutions Code specifies the procedures for calculating the cost-of-living adjustment. The section establishes December 1975 as the base month and year from which changes in the consumer price index are measured. It also provides that the Department of Social Services shall select a comparison month for computation of the percentage change in the cost-of-living. The department has selected December as the comparison month and is required to use the same comparison month annually. In computing the cost-of-living increase, the department is required to determine the percentage change in the average of the separate consumer price indices for Los Angeles and San Francisco between December 1975 and the comparison month. Because of this procedure, any cost-of-living adjustment not provided in one year is automatically contained in the subsequent year calculations.

Under current law, the cost-of-living increase for 1979–80 would include two components: (1) the adjustment which would have been provided in 1978–79 and (b) the increase that normally would become effective July 1, 1979. Under current law, the combined cost-of-living increase would be 15.16 percent.

General Fund costs for providing a 6 percent cost-of-living adjustment as proposed by the administration would total $42.7 million. The General Fund cost of a 15.16 percent cost-of-living increase, as required by current law, would be $107.9 million.

How Much Of An Increase Should Be Granted? We have several concerns with the Governor's proposed 6 percent cost-of-living adjustment. First, the purpose of a cost-of-living increase is to help the purchasing power of grants to welfare recipients keep pace with the rising costs of food, shelter, transportation, and other necessities of life. However as far as we can determine, the administration's proposed cost-of-living increase is an arbitrary percentage adjustment which does not reflect a direct relationship between current grant levels and changes in economic conditions.

Second, it is our understanding that the administration's proposal is predicated upon a change in current law. However, it is unclear whether the Governor proposes to change permanently the statutory requirement for a cost-of-living adjustment based on the consumer price index, or whether he intends simply to suspend the requirements for a second year (as SB 154 waived these requirements for 1978–79). If he is proposing merely to suspend current statutory authority for another year, then existing law would require AFDC recipients to be given cost-of-living adjustments covering a three-year period, with a resulting heavy impact on the 1980–81 budget.

We also have some problems reconciling the provisions of current law with the actions taken by the Governor and Legislature in enacting the Budget Act of 1978 and SB 154. On the one hand, their intent may have been to defer the cost-of-living adjustment on the AFDC grant until 1979–80. This action would produce a one-time savings, but would not permanently reduce the level of state expenditures under this program. On the other hand, the purpose of the Governor and Legislature in denying the cost-of-living adjustment may have been to permanently reduce program costs, thereby providing increased state funds for use in assisting local governments on a permanent basis. This would suggest that the cost-of-living increase not be restored in 1979–80.

DEPARTMENTAL SUPPORT—Continued

We have no basis for determining the intent of the Governor and Legislature in denying the 1978–79 cost-of-living adjustment called for under existing law. We believe, however, that AFDC recipients should not suffer a further reduction in the purchasing power of their benefit checks in 1979–80, and therefore we recommend that these recipients be given a 6.91 percent cost-of-living adjustment effective July 1, 1979 (rather than the 6 percent increase proposed in the budget). Any increase above this 6.91 percent level for 1979–80 would result in an increase in the real income of program beneficiaries when compared to the grant levels approved by the Governor and Legislature for 1978–79 and we have no basis for recommending such an increase.

We further recommend that current law be amended to establish December 1977 as the new base month and year for computing changes in the consumer price index when calculating annual cost-of-living increases for AFDC recipients. The comparison month to be used annually thereafter should also be December. We further recommend that current law be amended so that the percentage change in the index from December 1977 to the comparison month of December of each subsequent year be applied annually against the AFDC grant levels in effect in June 1979.

If legislation is adopted which incorporates these recommendations, AFDC recipients would receive a 6.91 percent cost-of-living increase effective July 1, 1979. This would mean that a family of three who received $356.00 per month in the current year would be entitled to $381.00 per month in the budget year. The same family would receive $377.00 under the administration's proposal and $410.00 under current law.

The General Fund cost for a 6.91 percent cost-of-living increase in 1979–80 would be $49,196,400. Because the Governor's Budget contains $42,717,600 for a 6 percent cost-of-living increase, we recommend that the limit in Control Section 32.5 be increased by $6,478,800.

Department of Social Services

ATTORNEYS' FEES AND COSTS AWARDED TO WELFARE APPLICANTS OR RECIPIENTS

Item 283 from the General Fund — Budget p. 785

Requested 1979–80	$15,000
Estimated 1978–79	N/A
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Current law provides that welfare applicants or recipients can file a petition with the Superior Court requesting a review of a fair hearing decision issued by the director of the department. Current law also provides that "the applicant or recipient shall be entitled to reasonable attorney's fees and costs, if he obtains a decision in his favor."

This item provides funds pursuant to Section 10962 of the Welfare and Institutions Code for the payment of attorney fees to welfare recipients or applicants who successfully litigate complaints against the Director of the Department of Social Services. This item is identified separately for the first time in the budget year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes $15,000 from the General Fund to pay the attorneys' fees and costs of welfare recipients and applicants who have received a favorable court decision.

Expenditures for the first six months of 1978–79 totaled approximately $7,000 for four claims. Information provided by the department indicates that the fees for 1978–79 were paid to both private practice attorneys and public interest law firms.

Department of Social Services

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED

Item 284 from the General Fund — Budget p. 772

Requested 1979–80	$706,156,442
Estimated 1978–79	734,844,300
Actual 1977–78	721,202,706
Requested decrease $28,687,858 (3.9 percent)	
Total recommended increase	$21,639,400

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *SSI/SSP Cost-of-Living Increase. Augment Item 284 in the amount of $21,639,400.* Recommend that current law for calculating SSI/SSP cost-of-living adjustment be amended to provide a 6.91 percent cost-of-living increase. 776

GENERAL PROGRAM STATEMENT

The SSI/SSP program is a federally-administered program under which needy and eligible aged, blind, and disabled persons receive financial assistance. The program began on January 1, 1974, when 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 administered a joint federal-state-county program which 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 Payment (SSP).

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

ANALYSIS AND RECOMMENDATIONS

Combined State and County Costs

The budget proposes $706,156,442 from the General Fund as the state share of the SSI/SSP program in 1979–80. This is a decrease of $28,687,858, or 3.9 percent, from estimated expenditures in the current year.

Although the Governor's Budget provides for a 6 percent cost-of-living increase for SSI/SSP recipients, the total cost of this program to the state and counties will increase only slightly in 1979–80. Combined state and county expenditures for the SSP Program are estimated at $906,572,000 in 1979–80. As shown in Table 1, this is an increase of $4,152,300, or 0.5 percent, above the current year.

Table 1
State and County Expenditures
For the SSP Program
1978–79 and 1979–80

			Change	
	1978–79	*1979–80*	*Amount*	*Percent*
State	$734,844,300	$706,156,442	$−28,687,858	−3.9%
County [a]	167,575,400	200,415,558	+32,840,158	+19.6
Total	$902,419,700	$906,572,000	$+4,152,300	+0.5%

[a] SB 154 provided that the state would pay the county share in 1978–79. The Governor's Budget proposes the county share for 1979–80 also be paid by the state.

Under the Governor's proposal, the federal government would pay for most of the 6 percent cost-of-living increase in the SSI/SSP grant. This is why the proposed 6 percent increase results in only a small increase in *combined* state and county expenditures for this program.

Table 2 shows how the grant for an aged or disabled individual would be determined in 1979–80. This individual is receiving a monthly SSI/SSP check of $307.60 in 1978–79. The Governor proposes to increase the total grant by 6 percent, or $18.46, in 1979–80. Because the federal government will provide a cost-of-living increase on its SSI grant of 8.4 percent, or $16.00, the state only has to contribute an additional $2.46 to reach the total grant adjustment of $18.46.

Table 2
SSI/SSP Grant Level for an Aged or Disabled Individual
1978–79 and 1979–80

			Cost-of-Living Increase			
Program	*1978–79*		*Percent*		*Amount*	*1979–80*
SSI Grant	$189.40	×	8.4% [a]	=	$16.00	$205.40
SSP Grant	118.20	—	N/A	—	2.46	120.66
Total	$307.60	×	6.0%	=	$18.46	$326.06

[a] Does not equal $16 exactly due to the manner in which the federal government calculates the cost-of-living adjustment.

General Fund Costs

Two factors account for the $28.7 million (3.9 percent) decrease in the cost to the General Fund of the SSP program in 1979–80. First, current year state expenditures of $734.8 million include $14.1 million for the SSP program which would have been paid by the counties if legislation (SB 154) had not been enacted to shift the counties' share of program costs to the state. This $14.1 million expenditure resulted from a greater-than-anticipated increase in assessed property valuations in 1978–79. During the hearings on SB 154, it was assumed that assessed valuations in the counties would increase by only 1.5 percent under Proposition 13. In fact, reassessments increased assessed valuations by approximately 10 percent. Because the county share of the SSP program is based on increases in assessed valuation, the county obligation rose by 10 percent to $181.6 million. SB 154 appropriated only $167.6 million of this amount, leaving $14.1 million to be funded from Item 271 of the Budget Act of 1978.

Second, General Fund costs for the SSP program in 1979–80 will decrease because of the present funding formula. As noted above, the county share of the SSP program is not tied to changes in program costs, but rather to changes in assessed valuations. If assessed valuations increase by more than program costs (as they are expected to in 1979–80), the county share of the program grows accordingly, thereby reducing the state share.

Components of Change

Table 3 shows the components of change in the proposed General Fund expenditures for the SSP program.

Table 3
Proposed General Fund Budget Adjustments in the SSP Program 1979–80

	Cost	*Total*
A. Budget Base		$734,844,300
B. Budget Adjustments		
1. Six percent Cost-of-Living Adjustment for 1979–80	$21,060,600	
2. Cost to the State of Passing on the Federal SSI Cost-of-Living Increase in 1979–80	45,325,800	
3. Reduced Grant Costs due to Increases in Recipient Unearned Income	−60,182,700	
4. Increased County Share of the SSP Program for 1978–79 Resulting from Reassessments	−14,061,100	
5. Two-month Cost-of-Living Increase for 1978–79	−18,817,800	
6. Decrease in Estimated Costs for the 1978–79 SSI Cost-of-Living Adjustment	−1,127,800	
7. Other Adjustments	−884,858	
Total, Budget Decrease		$−28,687,858
Proposed Total General Fund, Item 284		$706,156,442

Federal Revenue Sharing Funds

Budget Bill language in Item 432 specifies that $276.2 million shall be appropriated from the Federal Revenue Sharing Fund to the General Fund and transferred to Item 284 to partially fund the SSP program. Language in Item 284 specifies that the revenue sharing money is to be

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

expended prior to the expenditure of the remaining $429,956,442.

Cost-Of-Living Increase for SSI/SSP Recipients

We recommend that:

1. *Current law be changed to establish December 1977 as the base month and year for calculating changes in the consumer price index when determining the cost-of-living increase for SSI/SSP recipients. The comparison month to be used annually thereafter would be December.*
2. *Current law be changed so that the percentage change in the consumer price index from December 1977 to the comparison month of December be applied against the total SSI/SSP grant levels in effect in June 1979.*
3. *The Budget Bill be augmented by $21,639,400 to provide a 6.91 percent cost-of-living increase for SSI/SSP recipients effective July 1, 1979, in order to reflect the change in the consumer price index between December 1977 and December 1978.*

Background. Each month, recipients receive from the federal government a single monthly check comprised of the federal grant payment for SSI and the state grant payment for SSP. Both the SSI and the SSP grants consist of a basic grant amount and a statutorily set cost-of-living factor which increases the basic grant annually. The cost-of-living increase on the federal SSI grant is based on the percentage change in the U.S. Consumer Price Index. The cost-of-living increase on the state SSP grant is based on the percentage change in the separate consumer price indices for Los Angeles and San Francisco.

As a result of the actions taken by the Legislature and the Governor in enacting the Budget Act of 1978 and Chapter 292, Statutes of 1978 (SB 154), the cost-of-living increase on the SSP grant was provided for only two months (July and August) during 1978–79. The federal cost-of-living increase on the SSI grant is being provided for the entire fiscal year. These two measures had the effect of overriding existing law that required a 7.71 percent increase in SSI/SSP grants—at least during 1978–79.

We requested an opinion from the Legislative Counsel concerning the status of the cost-of-living increase on the SSP grant provided for in existing law, after the end of fiscal year 1978–79. Specifically, we asked whether the actions of the Governor and the Legislature had permanently eliminated the cost-of-living increase on the SSP grant for the ten-month period September 1978 through June 1979.

The Legislative Counsel has concluded that: (1) the actions of the Governor and the Legislature merely suspended the cost-of-living adjustment on the SSP grant for 10 months in 1978–79 and (2) in the absence of intervening contrary legislation, the cost-of-living adjustment provided on July 1, 1979, would have to include the cost-of-living factor which would have been provided on July 1, 1978 (in addition to the factor required on July 1, 1979). The opinion of the Legislative Counsel states in part: "Thus, in the absence of intervening contrary legislation in 1979 which would take effect on or before July 1, 1979, under Sections 11453 and 12201

(Welfare and Institutions Code), the amount of the respective July 1, 1979, AFDC and SSI/SSP state cost-of-living adjustments would include the percentage increases which would otherwise have been included in the respective inoperative adjustment of 1978."

Under current law, the cost-of-living increase required on July 1, 1979, is based on the change in the consumer price index from December 1976 to December 1978, and is estimated to be 15.16 percent.

Table 4 shows the cost of providing (a) a 6 percent cost-of-living adjustment as proposed by the Governor and (b) a 15.16 percent cost-of-living increase as required by existing law. Total costs for a 6 percent cost-of-living increase would be $148.5 million, of which $66.4 million would be from the General Fund. This consists of $21.1 million for the SSP cost-of-living and $45.3 million for passing on the federal cost-of-living increase on the SSI grant. (Current law requires the state to pass-on federal increases on the SSI grant to SSI/SSP recipients. Because the federal government provides only enough funds to cover the cost-of-living increase for SSI recipients, there is a cost to the state for providing the SSI increase to the remaining SSP recipients who do not qualify for SSI because their income is too high.)

Table 4 also shows that the cost of providing a 15.16 percent cost-of-living adjustment would be $365.3 million. Of this amount, the state would contribute $283.2 million and the federal government would provide $82.1 million.

Table 4
Cost-of-Living Increases for SSI/SSP Recipients in 1979–80 Under Various Assumptions (in millions)

Program *SSI/SSP*	*Current law 15.16 percent increase*	*Administration's proposed 6 percent increase*
General Fund	$283.2	$66.4
SSP Cost-of-Living	(237.9)	(21.1)
Cost for passing on the federal cost-of-living increase on the SSI grant	(45.3)	(45.3)
Federal Funds:		
Cost to the federal government for providing SSI cost-of-living increase	82.1	82.1
Total, SSI/SSP	$365.3	$148.5

Problems With the Cost-of-Living Formula Used Under Existing Law. We have some concerns with the provisions of current law regarding cost-of-living adjustments for SSI/SSP recipients. First, because of the formula in the Welfare and Institutions Code, the total SSI/SSP grant and the SSP portion increase annually at a rate greater than the rate of increase in the consumer price index. This is illustrated in Table 5, which compares the change in the SSI/SSP grant for an aged or disabled person with the change in the consumer price index for Los Angeles and San Francisco. As the table indicates, if the full cost-of-living increase had been provided in 1978–79, the total SSI/SSP grant would have grown 8.8 percent and the SSP grant would have risen 12.2 percent, even though the consumer price index rose only 7.7 percent between December 1976 and

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

December 1977 (the period used to determine the cost-of-living adjustment for 1978–79). Table 5 also shows that in 1977–78, the SSI/SSP grant increased 7.2 percent, the SSP grant grew 9.2 percent, but the consumer price index rose 5.3 percent between December 1975 and December 1976.

Table 5
SSI/SSP Grant for an Aged or Disabled Individual and Change in the Consumer Price Index 1977–78 and 1978–79
(Dollar amounts shown for 1978–79 are based on the assumption that the cost-of-living increase was granted)

Fiscal Year	Total SSI/SSP Grant Amount	Total SSI/SSP Grant Percent Change	SSI Grant Amount	SSI Grant Percent Change	SSP Grant Amount	SSP Grant Percent Change	Change in Consumer Price Index Period	Change in Consumer Price Index Percent Change
1978–79	$322.00	8.8%	$189.40	6.5%	$132.60	12.2%	12-77/ 12-76	7.7%
1977–78	296.00	7.2	177.80	6.0	118.20	9.2	12-76/ 12-75	5.3

Second, the distortion between the change in the consumer price index and the increase in the SSI/SSP grant results in an inequity between the cost-of-living adjustment provided for AFDC and SSI/SSP recipients. Table 6 compares the change in the grant level for a one-person AFDC recipient with that for an aged or disabled SSI/SSP recipient. It shows that if the full cost-of-living increase had been provided in 1978–79, the total SSI/SSP grant would have increased 8.8 percent, while the grant level for an AFDC recipient would have risen 7.4 percent, or an increase approximately equal to the percentage change in the consumer price index. For 1977–78, the SSI/SSP grant rose 7.2 percent, the AFDC grant increased 5.4 percent and the consumer price index change was 5.3 percent.

Table 6
Grant Levels for an Aged or Disabled Individual on SSI/SSP and One Person on AFDC 1977–78 and 1978–79
(Dollar amounts shown for 1978–79 are based on the assumption that the cost-of-living increase was granted)

Fiscal Year	Aged or Disabled SSI/SSP Recipient Grant	Aged or Disabled SSI/SSP Recipient Percent Change	One Person AFDC Recipient Grant	One Person AFDC Recipient Percent Change	Change in Consumer Price Index Period	Change in Consumer Price Index Percent Change
1978–79	$322.00	8.8%	$188.00	7.4%	12-77/ 12-76	7.7%
1977–78	296.00	7.2	175.00	5.4	12-76/ 12-75	5.3

In view of the above, we recommend that current law be changed to establish December 1977 as the new base month and year for computing changes in the consumer price index when calculating the cost-of-living increase for SSI/SSP recipients. The comparison month to be used annually thereafter should be December. We further recommend that current law be amended so that the percentage change in the consumer price index be applied against the total SSI/SSP grant in order that the grant increase will more closely reflect the amount required to offset changes in the cost-of-living.

How Much of an Increase Should be Granted? We have several concerns with the Governor's proposed 6 percent cost-of-living increase. First, the intent of a cost-of-living adjustment is to help maintain the purchasing power of grants to welfare recipients as the costs of food, shelter, transportation and other necessities of life rise. As far as we can determine, the Governor's proposed cost-of-living increase is an arbitrary percentage adjustment, and does not reflect a direct relationship between current grant levels and a change in any economic index that we can identify.

Second, it is our understanding that the Governor's proposal is predicated upon a change in current law. Specifically, it is unclear whether the Governor proposes to change permanently the statutory requirement for a cost-of-living increased based on the consumer price index, or whether he proposes to simply suspend the requirements of current law for a second year (as SB 154 suspended these requirements for 1978–79). If he is proposing merely to suspend current statutory authority for another year, then existing law would require SSI/SSP recipients to be given cost-of-living adjustments covering a three-year period, with a resulting heavy impact on the 1980–81 budget.

We also have some problems reconciling the provisions of current law with the actions taken by the Governor and Legislature in enacting the Budget Act of 1978 and SB 154. On the one hand, their intent may have been to defer the cost-of-living increase on the SSP grant until 1979–80. This would produce a one-time savings but would not permanently reduce the level of government expenditures under the program. On the other hand, the Governor's and Legislature's purpose in denying the cost-of-living adjustment may have been to permanently reduce program costs, thereby providing increased monies for use in assisting local government on a permanent basis. This would suggest that the cost-of-living increase not be restored in 1979–80.

We have no basis for determining the intent of the Governor and Legislature in denying the 1978–79 cost-of-living adjustment called for under existing law. We believe, however, that SSI/SSP recipients should not suffer a further reduction in the purchasing power of their benefit checks in 1979–80, and therefore we recommend that these recipients be given a 6.91 percent cost-of-living adjustment effective July 1, 1979 (rather than 6 percent increase called for in the budget). Any increase above the 6.91 percent cost-of-living would result in an increase in the real income of program beneficiaries when compared to the grant levels approved by the Governor and Legislature for 1978–79. We have no basis for recommending such an increase.

In conclusion then, we recommend that the total SSI/SSP grant levels

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

in effect in June 1979 be established in law as the grant levels against which changes in the consumer price index are annually applied. If legislation is adopted which incorporates our recommendations, an aged or disabled individual who received $307.60 in the current year would be entitled to $328.86 in 1979–80. This same person would receive $326.06 under the governor's proposal and $353.00 under current law.

Table 7 shows that the General Fund cost for a 6.91 percent cost-of-living increase in 1979–80 would be $88.0 million. Because the Governor's Budget contains only $66.4 million for a 6 percent cost-of-living increase, we recommend that the budget be augmented by $21.6 million.

Table 7

Cost-of-Living Increases for SSI/SSP Recipients in 1979–80 Under Various Assumptions

Program	*6.91 Percent Increase*	*Administration's Proposed 6 Percent Increase*	*Difference*
SSI/SSP			
General Fund	$88,025,800	$66,386,400	+$21,639,400
SSP Cost-of-Living	(42,700,000)	(21,060,600)	(+21,639,400)
Cost for Passing On the Federal Cost-of-Living Increase on the SSI Grant	(45,325,800)	(45,325,800)	—
Federal Funds:			
Cost to the Federal Government for Providing SSI Cost-of-Living Increase	$82,114,400	$82,114,400	—
Total, SSI/SSP	$170,140,200	$148,500,800	+$21,639,400

Related Programs

Current law requires that adjustments be made to maximum aid payments for severely impaired and nonseverely impaired recipients of in-home supportive services who are at the existing maximum and who have additional unmet needs. This adjustment is based on the formula for calculating cost-of-living for SSI/SSP recipients. IHSS recipients, however, received an increase in maximum aid payments for fiscal year 1978–79, even though SSI/SSP recipients did not receive the full cost-of-living adjustment called for under existing law. As a result, failure to provide a catch-up cost-of-living increase to SSI/SSP recipients for 1978–79 would not affect in-home supportive services recipients.

Because the cost-of-living adjustment for a recipient under the Aid to the Potentially Self-Supporting Blind program is determined using the same formula used for SSI/SSP recipients, a revision of the current cost-of-living formula will affect the APSB recipients. This issue is discussed under Item 285.

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 285 from the General Fund — Budget p. 772

Requested 1979–80	$5,968,700
Estimated 1978–79	5,437,596
Actual 1977–78	5,305,204
Requested increase $531,104 (9.8 percent)	
Total recommended increase	$13,600

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
285(a)	Special Circumstances	General	$2,710,200
285(b)	Special Benefits	General	115,900
285(c)	Aid to the Potentially Self-Supporting Blind	General	1,582,600
285(d)	Emergency Payments	General	1,560,000
285(e)	Repatriated Americans	General	35,000
285(f)	Repatriated Americans	Federal	−35,000
	Total		$5,968,700

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Aid to the Blind Cost-of-Living. Increase Item 285(c) by $13,600.* Recommend augmentation to provide a 6.91 percent cost-of-living increase in order to conform to the recommendation in Item 284. — 782

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 county welfare departments.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation of $5,968,700 for Special Adult Programs administered by the Department of Social Services. This is an increase of $531,104, or 9.8 percent, over estimated current year expenditures.

Special Circumstances (Item 285(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 $2,710,200 for fiscal year 1979–80 which is an increase of $590,800, or 27.9 percent, over the estimated current year ex-

SPECIAL ADULT PROGRAMS—Continued

penditure. The primary reason for this increase is caseload growth.

Special Benefits (Item 285(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 $115,900 for fiscal year 1979–80 which is an increase of $5,504, or 5.0 percent, over the current year. The primary reason for this increase is an increase in caseload.

Aid to Potentially Self-Supporting Blind (Item 285(c))

We recommend an augmentation of $13,600 to provide a 6.91 percent cost-of-living increase in order to conform to the recommendation in Item 284.

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 become economically self-supporting. The budget proposes $1,582,600 for fiscal year 1979–80, which is an increase of $347,700, or 28.2 percent, over the estimated current year expenditure. The reasons for this increase are a proposed 6 percent cost-of-living adjustment and increased caseload.

Section 13100(a) of the Welfare and Institutions Code requires that the grant for a recipient under the Aid to the Potentially Self-Supporting Blind Program be adjusted annually. This adjustment is based on the formula for calculating the cost-of-living increase for SSI/SSP recipients. The Governor's Budget contains a 6 percent cost-of-living adjustment for APSB recipients. We recommended in our analysis of Item 284 that the current formula for calculating the SSI/SSP cost of living be revised to provide a 6.91 percent increase (instead of a 15.16 percent increase, as existing law requires) in 1979–80. If that recommendation is adopted, it will affect the cost-of-living adjustment for APSB recipients.

We therefore recommend an augmentation of $13,600 to provide a 6.91 percent cost-of-living adjustment for the APSB program, in order to be consistent with the recommendation in Item 284.

Emergency Payments (Uncollectible Loans) (Item 285(d))

Chapter 1216, Statutes of 1973, mandates that counties provide emergency loans to aged, blind and disabled recipients whose regular monthly check from the federal Social Security Administration has been lost, stolen or delayed. The budget proposes $1,560,000 for fiscal year 1979–80 which is $412,900, or 20.9 percent, below the estimated current year expenditures.

This estimated decrease is due to Chapter 724, Statutes of 1978 (SB 1631), which allows the department to adopt regulations basing eligibility for receipt of a loan on the repayment of previous loans.

Temporary Assistance for Repatriated Americans (Item 285(e))

The federal repatriate program is designed to provide temporary help to needy U.S. citizens returning to the United States from foreign countries because of destitution, physical or mental illness or war. Recipients can be provided temporary assistance to meet their immediate needs and continuing assistance for 12 months or less. County welfare departments administer the program based on federal and state guidelines. The program is 100 percent federally funded. Expenditures in the current year are estimated at $35,000 and the same amount is proposed for 1979–80.

Department of Social Services
HARRINGTON VS. OBLEDO COURT CASE

Item 286 from the General Fund — Budget p. 773

Requested 1979–80	$5,798,600
Estimated 1978–79	N/A
Total recommended reduction	$5,798,600

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Harrington vs. Obledo. Reduce Item 286 by $5,798,600.* Recommend deletion because final court decree has not been issued. 784

GENERAL PROGRAM STATEMENT

This item provides $5,798,600 from the General Fund to pay the prospective costs of the California Court of Appeals decision in the Harrington vs. Obledo court case.

ANALYSIS AND RECOMMENDATIONS

Prior to January 1974, adult welfare recipients in California were provided aid through the following programs: Old-Age Assistance, Aid to the Blind, and Aid to the Totally Disabled. The federal government helped finance these adult welfare programs through grants-in-aid to California, and the programs were administered by the county welfare departments. Beginning January 1, 1974, these programs were replaced by the SSI/SSP program through enactment of PL 92-603 (HR 1) and Chapter 1216, Statutes of 1973 (AB 134).

The *Harrington vs. Obledo* case concerns two welfare recipients who received aid under the adult welfare program in effect in California prior to January 1, 1974, but who were not eligible to receive aid under the SSI/SSP program. At the time the SSI/SSP program was implemented, Ms. Harrington was a recipient under the Aid to the Totally Disabled program. However, she was dropped from the SSI/SSP program because she did not meet the new federal definition of "disabled." Similarly, Ms. Cruz was a recipient under the Old Age Assistance Program but did not meet the new federal eligibility requirement for aliens established for the SSI/SSP program.

HARRINGTON VS. OBLEDO COURT CASE—Continued

Both former welfare recipients brought suit against the state after being dropped from the federal SSI program, claiming that they were entitled to receive SSP benefits at state expense. At issue was whether the Legislature had intended to establish a separate state-administered and state-financed adult welfare program for former recipients who were ineligible for SSI. The state argued that the Legislature had not intended to provide for such persons under SSP.

The Los Angeles Superior Court ruled in favor of the state. This decision was reversed by the Court of Appeals. The Court of Appeals concluded that recipients who are ineligible for SSI benefits under the Social Security Act are eligible for SSP benefits as a result of language contained in Section 12151 of the Welfare and Institutions Code. Section 12151 identifies eligibility requirements for SSP recipients and makes reference to PL 93-66.

The crux of the issue, according to the court, is whether the state intended to fix eligibility based on standards in effect when PL 93-66 was enacted, rather than based on the standards established by later federal amendments contained in PL 93-233. Under standards in effect when PL 93-66 was enacted, a recipient was eligible for the new SSI/SSP program if he had received aid in December 1973. Use of this standard would allow Harrington to qualify for the federal program. However, PL 93-233 amended PL 93-66 to require that a recipient must have received aid in December 1973 and for at least one month prior to July 1973 in order to be eligible. Use of this standard would exclude Harrington from federal eligibility because she did not start to receive aid until October 1973.

The court concluded that originally the Legislature had enacted a state law with eligibility requirements that were consistent with the federal law. However, the court found that, when the federal law was amended by PL 93-233, the Legislature failed to change state law to fully conform to federal law, thus leaving a class of persons, including Ms. Harrington, eligible to receive state benefits.

In the case of Ms. Cruz, the court ruled that she was entitled to continued state welfare payments, even though she no longer met the federal requirements, and that her alien status should be determined by requirements in state, rather than federal, law. Section 11104 of the Welfare and Institutions Code, which defines eligible alien status for AFDC recipients, requires that an alien's certification of legal status be verified by the U.S. Immigration and Naturalization Service and that aid continue pending such verification. Because such verification was never sought by the state, the court has ruled that Ms. Cruz is entitled to the payment of benefits.

The Court of Appeals has remanded the case to the Los Angeles Superior Court to prepare a final judgment. Although the state appealed the case to the California Supreme Court, it has been denied a petition for hearing.

Governor's Proposal

We recommend deletion of $5,798,600 in Item 286 for costs related to the Harrington vs. Obledo case.

The Budget Bill proposes to appropriate $5,798,600 from the General

Fund to pay the prospective costs of the Court of Appeals' decision. This includes funds for the following purposes:

(a) $5,410,100 for retroactive grant costs,
(b) $360,000 for prospective grant costs and
(c) $28,500 for implementation costs.

In addition, Item 286 contains language which permits funds to be transferred to Item 282, Department of Social Services support, or Item 288, County Administration, since it is not clear whether the court will require the state or the counties to administer a separate new program for SSP recipients.

Unresolved Issues

During hearings on the 1978–79 budget, the Department of Finance submitted a budget amendment letter proposing funds to pay the partial year costs related to the Harrington court case. At that time we pointed out several unresolved issues in connection with this case which suggested that approval of the request was premature. The Legislature did not include funds in the Budget Act for these costs.

Many of the unresolved issues which we identified last year have not yet been resolved. Specifically: (1) we do not know what specific action the Superior Court will require of the department in its final decree, (2) we do not know whether the state will be required to make retroactive payments as well as prospective payments to recipients, (3) we do not know the extent to which the state and/or counties will be required by the court to undertake extensive search activities to find and notify eligible recipients, (4) we do not know whether the state or counties will be required to administer a separate program for this class of recipients, and (5) the Legislature has not had an opportunity to fully review the court's decision or final judgment, or to consider the policy question of establishing a separate SSP program for recipients who are eligible under old federal state welfare programs but who are not eligible for the SSI program. Since the court's decision is based on its interpretation of legislative intent, it is appropriate for the Legislature to review that interpretation.

AB 3464, which would have amended Section 12151 of the Welfare and Institutions Code to conform state eligibility standards with existing federal eligibility requirements for SSI, was introduced in March 1978 and was referred to the Assembly Human Resources Committee. This bill would have eliminated the necessity for prospective payments to recipients such as Ms. Harrington and Ms. Cruz. However, the bill was not acted on by the committee.

Because there has been no final court decree in this case and because the Legislature has not had an opportunity to fully review the policy question involved, we recommend deletion of the proposed $5,798,600.

Department of Social Services
SOCIAL SERVICE PROGRAMS

Item 287 from the General Fund — Budget p. 777

Requested 1979–80	$177,143,755
Estimated 1978–79	132,113,865
Actual 1977–78	N/A
Requested increase $45,029,890 (34.1 percent)	
Total recommended reduction	$67,467,029

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
287	Social Services Program	General	$173,118,755
	Chapter 892, Statutes of 1977	General	125,000
	Budget Act of 1978, Item 274	General	1,500,000
	Welfare and Institutions Code, Section 16151	General	2,400,000
	Total		$177,143,755

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *In-Home Supportive Services Program.*
   (a) *Reduce by $33,927,057.* Recommend General Fund reduction of $33,927,057 for increased program costs. 795
   (b) Recommend that Budget Act language be added to make counties liable for the expenditure of funds which exceed the budgeted amount, and to require the Department of Social Services to implement a plan for controlling program costs. 797
   (c) *Reduce by $14 million.* Recommend General Fund reduction of $14 million by eliminating funds for proposed regulations. 797
2. *Other County Social Services Program.*
   (a) Recommend that legislation be enacted to identify and define county-administered social services more clearly and to limit the number of services which counties are required to provide. 799
   (b) *Reduce by $14,339,972.* Recommend reduction by transferring $14,339,972 in federal funds from other county social services to in-home supportive services and reducing General Fund support for in-home supportive services by an equal amount. 801
   (c) *Reduce by $5 million.* Recommend a General Fund reduction of $5 million for an augmentation for child protective services in accordance with legislative intent. 801

3. *Title XX Training.* Recommend a reduction of $16,863,300 in federal and county funds and reimbursements by eliminating funds for Title XX training programs. 805
4. *Demonstration Projects. Reduce by $200,000.* Recommend a General Fund reduction of $200,000 by eliminating funds for unspecified demonstration projects. 805
5. *Title XX Funding Transfer.* Recommend that Budget Items 271, 275, and 287 be revised so that the proposed allocation of federal Title XX funds to the Department of Developmental Services and the Department of Mental Health will be replaced by General Fund support. 807

GENERAL PROGRAM STATEMENT

The Department of Social Services is responsible for administering a number of social service programs. These programs differ in terms of services provided, clients served, source of funding, and organizational point of delivery. The Governor's Budget has grouped these programs into Adult Services and Family and Children's Services. We have identified the major components of these programs below.

Title XX Social Services

The department is designated the single state agency for purposes of receiving federal social service funds from Title XX of the Social Security Act. Federal regulations require that at least three services be provided for SSI/SSP recipients and that at least one service be directed to achieving each of five federal program goals including self-support, self-sufficiency, protection of children and adults, deinstitutionalization and institutionalization where necessary. The only specific service mandated by federal law is family planning for AFDC recipients.

County Administered Services. The majority of Title XX social services are administered by county welfare departments. State law and regulations require counties to provide ten specific services and permit counties to provide any of 14 additional services. One of the mandated services is provided through the In-Home Supportive Services (IHSS) program. The remaining services are provided through the Other County Social Service (OCSS) program.

Of the ten 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 foster care. Other services are provided to individuals who receive SSI/SSP or AFDC, or who are eligible by virtue of their low income. Federal regulations require that 50 percent of Title XX funds be used to provide services to cash grant recipients. In addition, the state requires that specific services be provided to individuals whose annual gross income does not exceed 80 percent of California's adjusted median income (or $15,145 in 1978).

State Administered Services. The Governor's Budget proposes that Title XX social services also be provided by the Department of Health Services (family planning), the Department of Mental Health (continuing care services), the Department of Developmental Services (continuing care services and regional centers), and the Department of Education

SOCIAL SERVICE PROGRAMS—Continued

(child development).

Title XX Program Funding. In 1972, Congress enacted legislation establishing a cap of $2.5 billion on federal Title XX funds, with the amount to be distributed to the states on the basis of population. California's share for fiscal year 1979–80 is $250,629,981, which includes a $2.1 million increase over last year's allocation to reflect a change in California's population. An additional $33,154,900 is available in the budget year as a result of PL 95-600 (HR 13511) for a total federal Title XX allocation of $283,784,881. Federal law requires that $263,784,881 of available Title XX 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 support for social services which far exceeds the 25 percent required match. For fiscal year 1979–80, state and county expenditures for social services will be $119.5 million above the amount required.

In addition, Section 15151.5 of the Welfare and Institutions Code requires that at least 66 percent of federal Title XX funds be allocated to the counties. The budget proposes that $209,625,400, or 73.9 percent of available funds be allocated to counties in 1979–80. The remaining federal funds are allocated to state programs. Of the $209,625,400 allocated to the counties, $77,215,300 is for in-home supportive services and $132,410,100 is for other county social services. Section 12306 of the Welfare and Institutions Code requires the state to provide the 25 percent match for federal funds used for in-home supportive services. Counties are required to provide the 25 percent match for other county social services although the state has provided an additional amount of General Fund support for these services in prior fiscal years.

Other Social Service Activities

The department is also responsible for administering the following social service programs:

1. Child welfare services which are funded under Title IV-B of the Social Security Act. The state receives an annual allocation of $3.4 million in federal Title IV-B funds for which the counties are required to provide a 25 percent match. These funds are used to supplement protective services for children.

2. Maternity care services which are funded from a continuing annual General Fund appropriation of $2.4 million made by Section 16151 of the Welfare and Institutions Code. These funds are used to reimburse nonprofit licensed maternity homes for the cost of care and services provided to unmarried pregnant women.

3. WIN social services which are funded through a combination of federal, state and county funds.

4. Services to Indo-Chinese refugees which are 100 percent federally funded through September 30, 1979.

5. Adoption services which are 100 percent state funded.

6. Community care licensing services provided by counties which are 100 percent state funded.

Impact of Proposition 13

At this time, it is unclear what impact Proposition 13 has had on social services. One problem is that it is difficult to separate the effect of Proposition 13 reductions on local revenues from the effect of legislative reductions on social service funding for fiscal year 1978–79. The action taken by the Legislature was further compounded by a related change in the allocation of remaining funds to counties.

A second problem is that Proposition 13 not only had an impact on available local revenues but also may have changed local administrator's perceptions about how they should spend those revenues. For example, it appears that some county boards of supervisors reduced their social service spending primarily because they interpreted Proposition 13 as a voter demand to reduce welfare services and not because of an actual reduction in available funds.

For these reasons, any reduction in county social service expenditures may be explained by several factors other than Proposition 13 revenue reductions.

There have been a number of surveys made by various organizations to identify the current situation in county social service programs. According to a 49-county survey conducted by the County Welfare Directors Association during October 1978, counties reported a total reduction of 560 social services positions during fiscal year 1978–79 below the prior year level. These reductions were made primarily by eliminating vacant positions and to a lesser extent through layoffs and demotions. It is difficult to identify the extent to which these positions were vacant as a result of a hiring freeze or for other reasons. In addition, it is difficult to identify the impact of the elimination of positions on the level and quality of services provided.

The department also conducted a survey during November 1978 of 11 large county welfare departments serving areas containing 85 percent of the total population. All 11 counties indicated they would continue to provide a county match for available federal funds at the rate of 25 percent or more. In addition, all 11 counties reported that they would be willing to provide a county match for any additional federal or General Fund support for other county social services should it be made available. However, the survey was not designed to identify if counties had reduced any existing overmatch.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $177,143,755 from the General Fund for social service programs in 1979–80. The total includes $173,118,755 from this item, $2,400,000 for maternity care services appropriated by Section 16151 of the Welfare and Institutions Code, $125,000 for centers for victims of domestic violence appropriated by Chapter 892, Statutes of 1977, and $1,500,000 for multipurpose senior service centers carried over from the Budget Act of 1978. The proposed General Fund amount is $45,029,890, or 34.1 percent, above estimated current year expenditures. Table 1 identifies the major components of this cost increase.

SOCIAL SERVICE PROGRAMS—Continued

Table 1
Proposed General Fund Budget Adjustments for Social Service Programs
Fiscal Year 1979–80

	Adjustment	*Total*
A. Budget Base		$132,113,865
B. Budget Adjustments		
1. In-Home Supportive Services		
a. Caseload growth	$17,801,757	
b. Provider benefits	−2,086,500	
c. Minimum wage increase	13,478,200	
d. Impact of Chapter 1362, Statutes of 1978	182,000	
e. Statutory cost-of-living adjustment for grants at maximum level	2,647,100	
f. Proposed regulations	9,056,400	
g. Title XX funding consolidation	−5,634,808	
h. Transfer from demonstration projects	3,573,551	
i. Replacement of one-time federal funds for community care licensing	1,527,000	
		$40,544,700
2. Other County Social Services		
a. Augmentation for child protective services	5,000,000	
		$5,000,000
3. Demonstration Projects		
a. Carry over from Budget Act of 1978	1,500,000	
b. Termination of HR 3387 projects and transfer to IHSS	−2,073,551	
c. Continuation of Family Protection Act Project	−317,000	
d. Termination of other project funding	−284,814	
		−$1,175,365
4. Adoptions		
a. Decrease in placements	−1,322,800	
b. Six percent cost of living	868,800	
		−$454,000
5. Community Care Licensing		
a. Six percent cost of living	845,100	
b. Technical adjustment	−8,900	
		$836,200
6. WIN Child Care		
a. Transfer of funds previously budgeted in separate item	278,355	
		$278,355
Total General Fund Increases		$45,029,890
Proposed Total General Fund from Item 287, Section 16151 of the W&I Code, Chapter 892, Statutes of 1977, and carry over from Budget Act of 1978		$177,143,755

Total expenditures for programs supported in Item 287 by state, federal and county funds as well as by reimbursements are projected to be $567,075,289 for 1979–80. This is an increase of $65,523,963, or 13.1 percent, over total estimated current year expenditures. Table 2 identifies total proposed expenditures for social service programs for the budget year.

Table 2
Total Proposed Expenditures for Social Service Programs
Fiscal Year 1979–80

Program	*General Fund in Item 287*	*General Fund in Other Items*	*Federal Funds in Item 287*	*County funds*	*Reimbursements*	*Total*
A. Title XX Social Services						
1. In-Home Supportive Services	$141,524,900	—	$77,215,300	—	—	$218,740,200
2. Other County Social Services	5,000,000	—	132,410,100	$43,724,800	—	181,134,900
a. Adult Services	—	—	(23,568,900)	(7,444,400)	—	(31,013,300)
b. Family and Children's Services	(5,000,000)	—	(108,841,200)	(36,280,400)	—	(150,121,600)
3. Child Development (Department of Education)	—	$10,671,314	52,013,942	—	—	62,685,256
4. Family Planning (Department of Health Services)	—	444,444	4,000,000	—	—	4,444,444
5. Regional Centers and Continuing Care Services (Department of Developmental Services)	—	3,212,200	9,636,600	—	—	12,848,800
6. Continuing Care Services (Department of Mental Health)	—	2,836,313	8,508,939	—	—	11,345,252
B. Title XX Training						
1. State Administered	—	—	9,997,500	—	$3,332,500	13,330,000
2. County Administered	—	—	2,650,000	883,300	—	3,533,300
C. Other Social Services						
1. Demonstration Projects	3,158,000	—	430,075	—	17,887	3,605,962
2. Adoptions	12,389,900	—	—	—	—	12,389,900
3. Community Care Licensing	12,392,600	—	—	—	—	12,392,600
4. Services to Indochinese Refugees	—	—	7,182,400	—	—	7,182,400
5. WIN Child Care	278,355	—	3,711,405	134,023	—	4,123,783
6. WIN Separate Administrative Unit	—	—	11,146,643	1,238,516	—	12,385,159
7. Child Welfare Services (Title IV-B)	—	—	3,400,000	1,133,333	—	4,533,333
8. Maternity Care	2,400,000	—	—	—	—	2,400,000
Total	$177,143,755	$17,164,271	$322,302,904	$47,113,972	$3,350,387	$567,075,289

Availability of Additional Federal Funds

PL 95-600 (HR 13511) increased the $2.5 billion ceiling on federal Title XX funds available to the states for federal fiscal year 1979 by $400 million. The federal ceiling will revert to the $2.5 billion level beginning in federal fiscal year 1980 unless additional federal legislation is enacted. California's share of this increase is $40 million. Of this amount, $20 million is a continuation of federal funds made available during fiscal years 1977–78 and

SOCIAL SERVICE PROGRAMS—Continued

1978–79 for federal interagency day care requirements as a result of PL 95-171 (HR 3387) and PL 94-401 (HR 12455). A discussion of the proposed use of these funds is found in Item 328, Child Development Programs. An additional $20 million is available for Title XX social services.

Table 3 identifies how the budget proposes to allocate the $40 million in the current and budget years. We anticipate that the Department of Finance will submit a letter under Section 28 of the 1978 Budget Act notifying the Legislature of its intent to approve the expenditure of those funds identified for the current year. A discussion of the proposed use of these funds is included in our analysis of the individual programs.

Table 3
Proposed Use of One-Time Federal Funds Made Available by PL 95-600 (HR 13511) for Social Service Programs

Program	*Amount*
I. Fiscal Year 1978–79	
Other County Social Services—to replace General Fund support pursuant to Budget Act language	$6,845,100
II. Fiscal Year 1979–80	
A. Other County Social Services	
1. To continue 1978–79 funding	6,845,100
2. To provide portion of cost of living	6,309,800
B. Child Development	20,000,000
Total	$40,000,000

In addition, California's allocation of federal funds received under Title XX of the Social Security Act has been increased as a result of an adjustment for California's population growth. This represents an on-going increase of $2,130,000 in California's annual allocation. The budget indicates that these funds will be used for in-home supportive services in the current year and for in-home supportive services and other county social services in the budget year. We anticipate receiving a Section 28 letter from the Department of Finance for the proposed current year expenditure of these funds.

Departmental Progress in Addressing Social Service Issues

Last Year's Budget Issues. Last year during budget hearings, there was substantial legislative discussion regarding the lack of adequate program information to use as a basis for assessing appropriate funding levels for county-administered Title XX social services. As a result, our office recommended that $750,000 in one-time federal funds be allocated to the department for the purpose of establishing a planning group and developing a data base for other county social services. The Department of Finance opposed our recommendation, claiming that it was unnecessary. The department stated that the Department of Social Services already had adequate resources and staff to perform these functions, and in fact had established a number of departmental subcommittees to address these issues. Subsequent to that time, these subcommittees were discontinued.

Administration's Lack of Response. Because of the statements made by the Department of Finance during budget hearings, the Legislature added supplemental language requesting that the Department of Finance identify those existing positions and resources to be utilized by the Department of Social Services in defining and standardizing social services and developing a data base. Supplemental language also requested that the Department of Social Services report to the Legislature by December 1, 1978 on its progress in developing program goals and objectives, service standards, procedures for assessing service needs and priorities, and measures of service impact. To date, neither of these reports has been submitted to the Legislature.

On September 26, 1978, the Governor approved Chapter 1235, Statutes of 1978, the Social Services Planning Act. This act is intended to establish a comprehensive planning and allocation process for social services during a three-year period. The first cycle is to begin July 1, 1979. In the department's assessment of issues relating to the implementation of Chapter 1235, it reaffirmed that there existed (a) no uniform approach or structure for social service programs, (b) no uniform criteria for determining needs, assessing performance, or allocating resources, (c) ineffective public involvement in the planning process, (d) inadequate management information, (e) fragmented management control, (f) lack of departmental leadership, and (g) unclear priorities.

Because we had failed to receive departmental responses to the supplemental language requests, we sent a letter to the Director of Social Services on December 14, 1978. In that letter, we requested that the department identify what progress it had made in these problem areas during the first six months of fiscal year 1978–79 and what plans it had in the months ahead. To date, we have not received a written response from the department.

Based on our discussions with departmental staff, we have identified that the department intends to (a) establish an eight-member departmental task force to identify program goals and objectives, (b) develop a claims form which would require counties to report service costs by program, (c) develop a cost comparison report for in-home supportive services, and (d) develop a characteristics survey of recipients of other county social services. In addition, the department has previously indicated that it will develop a master plan for a three-year phase-in of the Social Services Planning Act during January 1979. In response to a supplemental language request, the department also has stated that it will implement new reporting forms for the in-home supportive services program by August 15, 1979, and that it established a departmental social services information system task force as of December 1978. This task force is to analyze data needs, assess current reporting systems, and present its recommendations to the department by July 1979.

Continuing Budget Problems. We anticipate that significant program accomplishments may be achieved by these activities if sustained. At the same time, it is clear that the department's approach in dealing with the major administrative and program issues in social services during the first

SOCIAL SERVICE PROGRAMS—Continued

six months of fiscal year 1978–79 has been unnecessarily delayed and fragmented. Part of this problem is due to the fact that the departmental division responsible for administering the social service program was under the management of an acting director for most of that time. A permanent deputy director was named during December 1978. Nonetheless, the Legislature is faced with the same lack of adequate information which was evident during last year's budget hearings.

IN-HOME SUPPORTIVE SERVICES PROGRAM

Program Description

The In-Home Supportive Services (IHSS) program provides domestic and personal care services to approximately 85,000 aged, blind and disabled low-income individuals. County welfare departments administer the program. However, 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 a 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 specified services per week. As of July 1, 1978, the maximum monthly allowance was $621 per month for severely impaired clients and $431 per month for nonseverely impaired clients.

Section 12306 of the Welfare and Institutions Code requires the state to match available federal Title XX funds for the cost of the program from the General Fund. The federal matching basis is 75 percent federal funds and 25 percent state funds. However, in fiscal year 1974–75, the state began providing increased state funds while federal funds remained the same. Of the funds proposed in the budget, 65 percent are state and 35 percent are federal. County administrative costs for in-home supportive services are included in the cost of the Other County Social Services program which is supported from federal, state and county funds. Table 4 shows the growth in the IHSS program from fiscal year 1974–75 to 1979–80.

Table 4
Total Expenditures for the In-Home Supportive Services Program
Fiscal Years 1974–75 to 1979–80

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	53,647,157	82,743,379	136,390,536	18.0
1978–79 (Budgeted)	90,766,284	80,736,134	171,502,418	25.7
1978–79 (Estimated)	100,980,200	82,866,134	183,846,334	34.8
1979–80 (Proposed)	141,524,900	77,215,300	218,740,200	19.0

Current Year Deficiency

Funds appropriated for the IHSS program for fiscal year 1978–79 totaled $171,502,418. This included $159,288,618 in state and federal funds made available by the Budget Act of 1978 and $12,213,800 made available by Chapter 463, Statutes of 1978 for provider benefits. However, the budget indicates that estimated expenditures for in-home supportive services will total $183,846,334, an increase of $12,343,916, or 7 percent over budgeted funds. The budget indicates that this deficiency will be funded as follows: (a) $6,845,100 from the General Fund redirected from Other County Social Services as a result of one-time federal funds made available by HR 13511, (b) $2,573,105 from the General Fund made available as a result of a current year savings in the Adoptions program, (c) $761,287 from the General Fund made available as a result of a current year savings in the county community care licensing program, (d) $2,130,000 from federal funds made available as a result of a population adjustment for California's Title XX allocation, and (e) $34,424 from a proposed deficiency appropriation.

According to an opinion from the Legislative Counsel, the Legislature is not required to make available additional funds for in-home supportive services during the current year for counties which exceed their allocation.

Budget Proposal

The budget proposes a General Fund appropriation of $141,524,900 for in-home supportive services, which is an increase of $40,544,700, or 40.2 percent, above the current year estimated expenditure. The primary reasons for the $40.5 million increase are: (a) $17.8 million for a 12 percent increase in caseload, (b) $13.5 million for minimum wage increases, (c) $2.6 million for statutory cost-of-living adjustments for grants which are currently at the maximum level, (d) $9 million for the additional cost of proposed regulations, (e) $5.1 million to replace federal funds made available during the current year as a result of HR 3387, and (f) $0.2 million for the cost of providing services to disabled employed individuals pursuant to Chapter 1362, Statutes of 1978. These costs are offset by the following General Fund reductions: (a) $5.6 million used to replace federal Title XX funds, and (b) $2.1 million resulting from a decrease in the cost of provider benefits.

Total program expenditures including federal funds are estimated at $218,740,200 for the budget year, which is an increase of $34,893,866, or 19 percent, over estimated current year expenditures, and an increase of $47,237,782, or 27.5 percent, over the current year appropriation.

Continuing Program Problems

We recommend that Item 287 be reduced by $33,927,057 from the General Fund by reducing funds for the In-Home Supportive Services Program.

A number of long-standing problems plaguing the IHSS program continue to limit our ability to assess the appropriateness of the proposed funding level.

SOCIAL SERVICE PROGRAMS—Continued

Unknown Program Results. One problem is lack of measurable program goals or data to assess whether the program is effective in meeting those goals. Some groups contend that the program's purpose is to provide an alternative to immediate institutionalization of eligible recipients. Other advocate groups have argued that the purpose of the program is to provide for the comfort and safety of eligible recipients in their own homes. In two letters to the department, we asked the department to identify: (a) its interpretation of the program goal, (b) its efforts to measure the effectiveness of the program in meeting that goal, and (c) the effect of the proposed level of funding on the department's ability to meet that goal. The department has not responded to our request.

One of the contributing problems is lack of clear program intent as identified in the enabling legislation. Nevertheless, the department has not indicated whether it intends to propose amendments to existing law to more clearly define the program. Nor has it adopted a narrow construction of the purpose of the program in order to ensure that program costs will stay within the available funds, an action the Legislative Counsel believes is permissible.

Unjustified Program Variations. A second problem is that among county programs, there continue to be unexplained variations in funds received, funds expended and services provided.

1. *Funds Received.* There is a close relationship between a county's SSI/SSP caseload and its IHSS caseload. This is probably explained by the fact that most IHSS recipients are SSI/SSP recipients. As a result, we would expect that a county's allocation of IHSS funds would bear some relationship to its SSI/SSP caseload. However, based on our review of data for 1978–79, we determined that the annual amount of IHSS funds received by some counties relative to their SSI/SSP caseload is more than four times greater than that received by other counties.

2. *Funds Expended.* The average monthly payment per client made by counties ranges from a high of $295 per month in some counties to a low of $57 per month in other counties. In addition, costs for services provided by contract providers range from a high of $9 an hour to a low of $4 an hour.

3. *Services Provided.* The average monthly hours of service per client provided by counties range from a high of 140 hours per month in some counties to a low of 10 hours per month in other counties.

These variations suggest that the state may be providing more General Fund support than is necessary to maintain a quality program.

Recommendation. According to an opinion from the Legislative Counsel, the Legislature is not required to increase the level of state funding for in-home supportive services, for the budget year above the level of funds appropriated for services in the current fiscal year. Because the department is unable to identify what program results it expects to achieve with the proposed funding for in-home supportive services, or to justify why such a broad range of variations is permitted among the county programs, we recommend that Item 287 be reduced by $33,927,057. This would be achieved by deleting funds for caseload growth, minimum wage increases and adjustments for grants at the maximum level. Any increased expenditures for these components should be absorbed within the existing funding level.

Uncontrolled Program Growth

We recommend that Budget Act language be added to Item 287 to: (a) make the counties liable for the expenditure of funds for in-home supportive services which exceeds the amount of funds contained in the budget, and (b) require the Department of Social Services to implement a plan for controlling the costs of the In-Home Supportive Services program.

An additional problem of the IHSS program is the continued spiraling of program costs. Of particular concern is the $12.3 million deficiency in the current year and the inability of the department to avert this deficiency. As indicated in Table 4, total program costs have almost tripled in a five-year period. If the rate of program growth continues at the same rate as it has in the past, the program will cost an estimated $2 billion dollars by fiscal year 1989–90.

There has been much confusion regarding the department's authority to control or limit county expenditures for services and whether funding for in-home supportive services should be considered open-ended or close-ended. We asked the department to define its role in administering the program and to identify what it had done during the current year to assure that program expenditures did not exceed funds appropriated. We also asked the department to identify what plans it had to develop regulations which would require counties to keep program expenditures within the level of appropriated funds. The department has not responded to our request.

In order to assure that unjustified program costs do not continue to exceed the amount of funds appropriated by the Legislature, we recommend that Budget Act language be added to: (a) make the counties liable for the expenditure of funds for in-home supportive services which exceeds the amount of funds contained in the budget, and (b) require the Department of Social Services to implement a plan for controlling the costs of the IHSS program. The Legislative Counsel has advised us that both of these provisions are valid conditions on the expenditure of funds appropriated in the Budget Act.

Program Regulations

We recommend that Item 287 be reduced by $14 million from the General Fund by eliminating funds for proposed in-home supportive services regulations.

Last year the Legislature added Budget Act language which required the department to issue emergency administrative regulations for in-home supportive services by July 15, 1978 and to develop additional program regulations to establish a uniform range of services. These program regulations were to be presented to the Legislature for review by November 15, 1978 and to be adopted by April 1, 1979. In addition, the budget appropriated $1 million for the emergency administrative regulations and $3 million for the three-month cost of the additional program regulations for fiscal year 1978–79.

SOCIAL SERVICE PROGRAMS—Continued

The department has implemented the emergency regulations in conformance with the July 15 deadline and has submitted draft program regulations in conformance with the November 15 deadline.

The emergency administrative regulations alter a number of procedures in the areas of eligibility determination and service authorization. The proposed program regulations contain the following changes:

1. A restatement of the purpose and content of the program.
2. The establishment of a range of services to be provided in each county. This range excludes medically-related personal services, protective supervision, and teaching and demonstration services, and limits the provision of transportation services to those which are medically related.
3. Further amendments to the application and needs assessment processes.

The department estimates that the proposed program regulations will result in an annual General Fund cost to social service programs of $19,774,400. This amount is composed of the following: (a) a cost of $27,891,500 to the Other County Social Services program for the transfer of protective supervision services and other staff requirements, (b) a savings of $8,117,100 resulting from the elimination or restriction of certain services. In addition, the proposed regulations will result in a cost of $1,694,000 to the Medi-Cal program for the provision of medically-related personal care and a savings of $409,000 to the SSP program resulting from the placement of a small number of individuals in out-of-home care facilities as a result of changes in protective supervision services. The total General Fund cost of the regulations is estimated at $21,059,400.

Item 287 contains a total of $14 million for the proposed regulations even though the department estimates they will cost $19,774,400 for social services programs. The department indicates that the regulations will be further amended to reflect the $5 million reduction and to reflect the concerns expressed as a result of public hearings held on January 15 and 16, 1979.

The program regulations attempt to establish a uniform range of services in conformance with legislative intent. However, we believe the Legislature should have a number of concerns with the regulations as submitted on November 15, 1978:

1. The regulations restate the program's definition but not in such a way as to permit measurement of accomplishments. The proposed regulations state that in-home supportive services are those activities and resources provided to eligible individuals who could not remain in their own homes without them and that the program is an alternative to out-of-home care. They also state that clients who are found to be able to live at home in comfort and safety without such services are not to be granted services. This definition does not provide a clear statement for eligibility determination or program evaluation. As a result, the department is unable to identify what actual program outcome can be anticipated as a result of providing a specified range of services in each county.
2. The proposed regulations do not contain provisions which would

assist the state or counties in limiting the cost of the program to the amount of funds appropriated through the budget process.

In addition, the department is unable to identify at this time how the regulations will be further amended to reflect the amount of funds currently contained in the Governor's Budget. As a result, we cannot recommend approval of funds for the proposed regulations. We therefore recommend that Item 287 be reduced by $14 million from the General Fund.

OTHER COUNTY SOCIAL SERVICE PROGRAM

Program Description

The Other County Social Services (OCSS) program consists of nine mandated and 14 optional services administered by counties under the provisions of Title XX of the Social Security Act. The mandated services include protective services for children, protective services for adults, out-of-home services for children, out-of-home services for adults, health-related services, employment services, information and referral, family planning services, and child care services. Under this program, counties are required to provide the 25 percent match for any federal Title XX funds received, unlike in-home supportive services where the state provides the match. However, in fiscal year 1976–77 the state began to provide an increasing amount of state support because of the cap on federal funds.

This year, Item 287 includes funds for the OCSS program in two subitems, Adult Services and Family and Children Services. These subitems also contain funds for in-home supportive services, Indo-Chinese services, WIN social services, and social services administered by other state agencies. These program components are discussed separately in other parts of our analysis.

Unclear Statutory Basis

We recommend that legislation be enacted to identify and define county administered social services more clearly and to limit the number of services which counties are required to provide.

A Department of Finance report dated June 1978 states that there is no legislatively established social services program. Rather, the law "specifies a collection of diverse programs, each with its own purpose, scope of benefits, and eligibility criteria. . ." It further points out that the statutes are particularly unclear in identifying whether all counties are required to provide those services mandated by state regulation. We asked the Legislative Counsel to identify those services which are required to be provided by state statute. The Counsel indicated that eight services are required in statute but that protective services for adults and out-of-home services for adults are not mandated by law.

Because of the confusion regarding the legal basis for provision of specific social services, we recommend that legislation be enacted to more clearly define county-administered social services. The Legislature may wish to consider requiring only those services which are most critically needed and where program effectiveness can be identified most clearly, thus reducing the number of services which counties are required to provide.

Current Year Budget

The budget as approved by the Legislature and the Governor provided $166,553,669 for the OCSS program of which $118,070,128 is federal funds, $6,845,100 is state funds, and $41,638,441 is county funds. In addition, Budget Act language required that in the event additional federal Title XX funds became available, such funds shall be used in lieu of General Fund dollars for support of that program. The Governor's Budget indicates that $6,845,100 in federal funds made available as a result of HR 13511 will be used to replace the General Fund appropriation for OCSS in the current year and that the released General Fund dollars will be used to fund part of the current year deficiency in the In-Home Supportive Services program.

Proposed Budget

The Governor's Budget for fiscal year 1979–80 proposes a total amount of $181,134,900, including $132,410,100 in federal funds, $5 million in state funds, and $43,724,800 in county funds. This is a total program increase of $15,058,872, or 9.1 percent, over estimated current year expenditures. Included in the $15.1 million increase is a $5 million General Fund increase for child protective services and a $7,494,872 increase in federal funds for a 6 percent cost-of-living adjustment. Table 5 presents a break-out of funding by source for the OCSS program for fiscal year 1979–80.

Table 5
Breakout of Funding by Source for Other County Social Services Program for Fiscal Year 1979–80

Source	*Amount*
A. Federal Funds	
a. Continuing Title XX allocation	$118,070,128
b. HR 13511 funds to replace General Fund support	6,845,100
c. HR 13511 funds to provide portion of cost-of-living	6,309,800
d. Title XX population adjustment to provide portion of cost-of-living	1,185,072
B. General Fund	5,000,000
C. County Funds	43,724,800
Total	$181,134,900

The budget indicates that the $181,134,900 will be distributed as follows: (a) $155,535,700 for the nine mandated services, and (b) $25,599,200 for optional services, although the budget does not identify these by individual services.

The department indicates that the distribution of funds by services is not based on actual expenditure data because the department does not yet receive this information from the counties. Instead it is based on how counties planned to spend their 1978–79 planning allocation in their Title XX plans last year. For this reason, the budget estimates are probably not highly accurate since the Title XX plan is not regarded as being particularly valid.

Legislative Concerns

We recommend that Item 287 be reduced by $14,339,972 by transferring $14,339,972 in federal funds from other county social services to in-home supportive services and reducing the General Fund appropriation for in-home supportive services by an equal amount.

In our analysis last year, we identified a number of problems with the OCSS program, including the fact that the program lacked standard program definitions or minimum service requirements and was unable to demonstrate the extent to which it was successful in meeting program goals. As a result, the Legislature reduced state funding to the 1976–77 level. Budget Act language was added which stated it was the intent of the Legislature that state funds appropriated for support of the program for fiscal year 1978–79 be made on a one-time basis only and that any future General Fund appropriations be based on the department's ability to identify the effectiveness of such services in meeting program goals.

In a letter to the department dated December 14, 1978, we asked what effort it had made in this regard, and what program outcomes it anticipates will be achieved as a result of the funding level proposed in the Governor's Budget. The department has not responded to our request.

The budget proposes to use $14,339,972 in new federal funds for support of the OCSS program. These funds will be used in lieu of General Fund support. Because these federal funds alternatively could be used to offset General Fund costs in other social service programs the effect of the budget's proposal is the same as it would have been had the $14,339,972 been requested from the General Fund directly. We believe this is contrary to the Legislature's intent not to provide support for other county social services above the level for fiscal year 1975–76 unless the effectiveness of those services could be conclusively demonstrated. The department has not been able to provide that demonstration. We therefore, recommend that Item 287 be reduced by $14,339,927. This would be accomplished by transferring $14,339,972 in new federal funds to the In-Home Supportive Services program and reducing the General Fund appropriation for in-home supportive services by an equal amount.

Child Protective Services Proposal

We recommend that Item 287 be reduced by $5 million by eliminating a General Fund augmentation for child protective services in accordance with stated legislative intent.

Current Program. The budget proposes $79,269,333 in federal and county funds for child protective services funded under Title XX and Title IV-B of the Social Security Act. In addition, the budget contains an additional $47,138,000 in federal and county funds for related out-of-home and child care services and an unspecified amount of funds for optional children's services.

Under current procedures, each county is permitted to determine how much of its appropriation for other county social services will be used for child protective services. The basis for determining how the state allocates funds to counties and how counties allocate funds to individual services is not based on a rational needs assessment process. Moreover, the depart-

SOCIAL SERVICE PROGRAMS—Continued

ment was unable to provide a break-out of estimated child protective service expenditures by counties.

Regulations implemented in 1969 require that child protective service intervention be available 24 hours a day. According to a Department of Health report dated October 1977, 42 of the 58 counties report that their welfare departments provide 24-hour child protective services. However, the characteristics of the existing systems vary from county to county.

Proposal. The budget proposes a $5 million augmentation for child protective services. According to the department's proposal, these funds are to be used to develop and implement improved 24-hour child protective service response systems in all 58 counties. The proposal identifies 14 requirements which counties must meet in providing such a system. The department indicates that these requirements will later be formalized as regulations, although it has provided no schedule for doing so. Counties which already meet these requirements will be permitted to use augmentation funds for other child protective services.

The department indicates that the funds will be allocated to each county based on the number of children aged 17 and under, with a minimum base for small counties. The allocation formula will not take into account how much money counties are currently spending for child protective services. The department states that counties are expected to provide a 25 percent match for any funds received, although these funds are not identified in the budget. In addition, the department proposes to establish 16 new positions to oversee implementation of the new response system at a General Fund cost of $417,190. These positions are discussed separately in Item 282, Departmental Support.

Program Concerns. We have a number of concerns with the department's augmentation proposal:

1. Budget Act language for fiscal year 1978–79 specifically stated it was the Legislature's intent not to provide additional General Fund support for other county social services, of which child protective services is a part, in the event the department is unable to demonstrate the effectiveness of the programs. The department has not done this.

2. Counties are currently spending $25,599,200 for optional services. We believe that counties should be required to use these funds to satisfy existing requirements of mandated services before using funds for optional services.

3. At this time, the department is unable to identify how budgeted funds are currently spent for child protective services or how the proposed $5 million augmentation will be spent for services by the counties.

4. There is a need to revise and update existing child protective services and child welfare services regulations prior to providing additional funding. For example, current regulations permit counties to spend their Title IV-B funds for child welfare services for specialized needs such as camp or tutoring. We believe that if an improved 24-hour response system is identified as an important need, counties should be required to use available funds for that service first.

For these reasons, we recommend that Item 287 be reduced by $5 million.

TITLE XX TRAINING

Section 28 Letter

On November 3, 1978, the Director of Finance submitted a letter to the Joint Legislative Budget Committee under the provisions of Section 28 of the Budget Act of 1978, regarding the proposed use of federal Title XX training funds. These funds are in addition to the state's allocation of Title XX funds for services. Federal training funds are currently uncapped but must be matched by 25 percent in state or local funds. The letter stated that the Director of Finance: (a) had approved $2.4 million to continue three state university training programs begun in fiscal year 1977–78, (b) intended to approve an expenditure of $1.8 million to permit the Department of Social Services to contract with the Southwest Regional Laboratory (SWRL) for Educational Research and Development for Title XX planning and training activities after 30 days, and (c) intended to approve an expenditure of $0.9 million to contract with three additional educational institutions to conduct new training programs.

On December 5, 1978, the Chairman of the Joint Legislative Budget Committee requested that the Director of Finance allow the Department of Social Services to contract with the three educational institutions only until February 1, 1979, in order to provide the committee an opportunity to review the appropriateness of these contracts. The chairman did not make specific recommendations on the remaining proposals. However, the chairman identified a number of problems with the proposed contracts including the fact that some of the institutions had proceeded with their training programs in spite of the fact that their contracts had not been reviewed by the Legislature or given final approval by the Department of Finance.

On February 6, 1979, the Chairman of the Joint Legislative Budget Committee responded to a subsequent request by the Director of Finance to continue the contracts through June 30, 1979. The chairman approved that request on the grounds that to do otherwise would unnecessarily penalize students and faculty. However, the chairman conditioned his approval on the department's willingness to discontinue immediately the practice of beginning training programs prior to executive or legislative approval. He informed the director that the issue of social service training would be reviewed fully by the fiscal subcommittees of the Legislature during budget hearings.

Current Year Expenditures

The Governor's Budget indicates that the state and counties will spend a total of $16,440,700 during the current year for social services training, to be funded from federal funds, county funds and reimbursements. However, the department has stated that, because of the concerns expressed by the Joint Legislative Budget Committee, it does not intend to expend the amount reflected in the budget and will instead spend only the $7,898,852 approved in the Budget Act of 1978 and the Section 28 letter.

Identification of Problems

As we indicated to the Chairman of the Joint Legislative Budget Committee, there are a number of problems with the way the administration has administered Title XX training funds during the current year:

SOCIAL SERVICE PROGRAMS—Continued

1. The Department of Finance approved contracts to continue several training programs even though funds were not included in the Budget Act and the Legislature had not been given prior notification.

2. Several of the educational institutions either continued to provide training services after their 1977–78 contracts had expired or began new programs before contracts had been approved. In order to reimburse the institutions for expenses already incurred, the Department of Social Services then backdated these contracts.

3. The Department of Social Services did not adhere to procedures for the selection of contract providers as identified in the State Administrative Manual (SAM). According to an opinion by the Legislative Counsel, SAM does not contain any provision which would have exempted the SWRL contract from the request-for-proposal procedures. As a result, the SWRL contract probably would have been subject to the requirement that three qualifying proposals be secured. The department did not seek any proposals but instead contacted SWRL and worked directly with it in preparing a proposal. The Counsel does point out, however, that there are no statutory provisions which require that a request-for-proposal process be followed for professional consultant services.

4. Continuing training programs at the state universities have been criticized by the department and were not adequately evaluated prior to the selection of new programs.

5. The department does not have any formal procedures for identifying training needs or reviewing program proposals based on their ability to meet those needs.

6. Several of the programs will provide training and stipends to students seeking a Master's of Social Work degree in spite of the fact that counties are terminating a substantial number of social service positions as a result of the passage of Proposition 13. In addition, the state has not developed regulations for the selection of students or the awarding of stipends. These decisions are left to the individual institutions.

7. The department has not made an effort to coordinate state-administered university training programs with county administered training programs. Instead, this responsibility has been delegated to the educational providers. As a result, services may be duplicative in some areas and inadequate in others. In at least one case, the state approved a contract to provide training services to social service providers in a specific county. However, the county welfare department had not been given an opportunity to review that contract and indicated it already had plans to enter into similar training contracts on its own.

Budget Proposal

We recommend that Item 287 be reduced by $16,863,300 in federal and county funds and reimbursements by eliminating funds for Title XX training programs.

The budget proposes a total of $16,863,300 in federal and county funds and reimbursements for state and county administered Title XX training programs. In addition, the budget proposes $341,250 in federal funds in Item 282, Departmental Support, for departmental training contracts.

The department indicates it is attempting to improve its management of Title XX training programs. For example, it states that it intends to do a statewide training needs assessment through its contract with SWRL and that it is attempting to develop a model request for proposal, and evaluative criteria for reviewing such proposals. Its contract with SWRL also indicates that SWRL is responsible for evaluating existing training contracts by June 1979. In addition, the department states it is drafting regulations to require counties to develop needs assessment and evaluation procedures for individual county Title XX training plans. However, these regulations will not be implemented in time for the 1979–80 planning process. At this time, the department is unable to identify what training programs counties have conducted in prior years or what impact these have had.

Because we are unable to identify how funds budgeted for social services training will be spent in fiscal year 1979–80, and because we are unable to identify how adequately the department will resolve current management problems, we recommend that Item 287 be reduced by $16,863,300 in federal and county funds and reimbursements by eliminating funds for Title XX training.

OTHER SOCIAL SERVICE ACTIVITIES

Demonstration Projects

We recommend that Item 287 be reduced by $200,000 by eliminating funds for unspecified demonstration projects.

The budget proposes $3,158,000 from the General Fund for demonstration projects, which is a decrease of $1,175,365, or 27.1 percent, below current year expenditures. Total funds budgeted for projects including federal funds and reimbursements are estimated at $3,605,962, which is a decrease of $1,222,735, or 25.3 percent, below total current year expenditures. The major reason for this decrease is an elimination of funds for one-time projects.

The budget indicates that funds for demonstration projects will be expended as follows: $125,000 for domestic violence projects to be funded from Chapter 892, Statutes of 1977, $1,333,000 for a family protection pilot project, $178,869 for a federally funded project for families at risk, $269,093 for federally funded child abuse projects, $200,000 from the General Fund for unspecified projects, and $1.5 million to be carried forward from the Budget Act of 1978 for multipurpose senior service centers. The proposed use of the $1.5 million is discussed in Item 35, Secretary of Health and Welfare, and Control Section 10.08.

Last year, we recommended deletion of $200,000 for unspecified demonstration projects because the department was unable to identify how these funds were to be spent. Subsequent to that time, the department identified several proposals to be funded from the $200,000 and we recommended approval. Since budget hearings, the department has changed a number of those proposals. At the time this analysis was prepared, the department has not actually executed the contracts for funds available in the current year, nor is it able to identify how the $200,000 contained in the proposed budget will be spent.

The department is already committing a substantial amount of time and resources to social service demonstration projects. For example, during the current year, the department is responsible for administering 17 social

SOCIAL SERVICE PROGRAMS—Continued

service demonstration projects. Many of these were established as a result of special legislation. Ten of these projects are expected to continue into the budget year. Several of these involve as many as three individual sites.

In addition, the department is faced with major problems in defining and restructuring social service systems. We believe that the department would achieve better program results by committing its staff and resources to these efforts rather than additional demonstration projects. We therefore recommend that Item 287 be reduced by $200,000 from the General Fund by eliminating funds for unspecified demonstration projects.

Adoptions

The budget proposes $12,389,900 from the General Fund for support of county administered adoption programs in 28 counties. This is a decrease of $454,000, or 3.4 percent, below estimated current year expenditures. This reflects an increase of $868,800 to provide a 6 percent cost-of-living adjustment, which is more than offset by a reduction of $1,322,800 to reflect a decline in caseload. The state is also responsible for the provision of state-administered adoption services in a number of additional counties. This program component is funded in Item 282, Departmental Support.

Community Care Licensing

The budget proposes $12,392,600 from the General Fund to support county-administered community care licensing activities. This is an increase of $836,200, or 7.2 percent, over estimated current year expenditures. This increase reflects $845,100 for a 6 percent cost-of-living adjustment which is partially offset by a $8,900 technical adjustment. Forty-seven counties contract with the state to license 71 percent of the state's 40,000 community care facilities. These activities are reimbursed from the General Fund. Remaining licensing activities are conducted by state personnel funded in Item 282, Departmental Support.

Social Services for Indo-Chinese Refugees

The Budget Act of 1978 did not contain funds for social services to Indo-Chinese refugees. However, the Governor's Budget indicates that $7,182,400 in federal funds will be expended in the current year for this purpose. In addition, the budget proposes a total of $7,182,400 in federal funds for Indo-Chinese social services in 1979–80. These funds will be used to continue contracts with private agencies, to provide education, employment and training services, to reimburse counties for the provision of social services, and to provide English language training.

As we discussed in Item 282, Departmental Support, federal funding for the Indo-Chinese Refugee Assistance Program (IRAP) is expected to terminate September 30, 1979. If no additional federal legislation is enacted, federal funding for IRAP social services could be overstated in the budget by $4,926,100. At that time, the state and counties would have to decide if they wished to continue these services using the same sharing ratios as for existing programs. If this is the case, it would result in a state cost of $3.8 million and a county cost of $1.1 million.

WIN Social Services

The budget contains $12,385,159 in federal and county funds for the cost of administering WIN Separative Administrative Units (WIN-SAUs). WIN-SAUs are administered by county welfare departments to provide social services to WIN registrants. These funds have not been reflected in the budget in previous years.

The budget also contains $4,123,783 for WIN child care services including $278,355 from the General Fund, $3,711,405 from federal funds, and $134,023 from county funds. These services are funded on the basis of 90 percent federal funds and 10 percent state and county funds. This is the same amount which is estimated to be expended in the current year.

Title XX Funding Transfer

We recommend that Budget Items 271, 275, and 287 be revised so that the proposed allocation of federal Title XX funds to the Department of Developmental Services and the Department of Mental Health be replaced by General Fund support.

The Department of Social Services has been designated the single state agency for purposes of administering Title XX funds. However, the department enters into a number of interagency agreements in order for other state departments to provide services supported in part by federal Title XX funds. The budget proposes that these include the Department of Education (child care), the Department of Health Services (family planning), the Department of Mental Health (continuing care services), and the Department of Developmental Services (continuing care services and regional center workshops) in 1979–80. The federal funds for these services are contained in Item 287. However, the General Fund match is appropriated in other departmental budget items. Because federal Title XX funds have been capped since 1972, the amount of federal funds traditionally allocated to these agencies has remained fairly constant, except for child care which has received augmentations as a result of the availability of one-time federal funds.

Last year, the department redirected federal Title XX funds from the community care licensing program by replacing them with General Fund overmatch from the in-home supportive services program. This resulted in no net change in support for either program but resulted in the elimination of federal funds in community care licensing and an increase in federal funds for in-home supportive services. The budget proposes to redirect federal Title XX funds from the Department of Rehabilitation for blind counselors and from the Department of Social Services for administrative support through the same transfer mechanism.

There are a number of administrative efficiencies which can be achieved by reducing the number of state programs which currently receive Title XX funds:

1. *Reduced Planning and Reporting Activities.* Federal regulations require that each program which receives federal Title XX funds satisfy complicated planning and reporting requirements. These requirements may not synchronize with state planning and reporting requirements. In addition, they place an unnecessary burden on state staff which results in

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no identifiable program benefit.

2. *Reduced Confusion Regarding Program Monitoring.* The current arrangement of funneling federal funds through the Department of Social Services to other departments has resulted in confusion regarding departmental responsibility for program monitoring. Because the department has been designated the single state agency by the federal government, it is responsible for ensuring that federal requirements are met. However, the Department of Social Services does not have the staff or authority to perform on-going review and enforcement functions for other departments. In addition, the current funding arrangement requires that each department devote a considerable amount of staff time to ensure the proper budgeting of funds and negotiation of interagency agreements.

Currently the Department of Mental Health uses Title XX funds for continuing care services to individuals who no longer require hospitalization. The Department of Developmental Services uses Title XX funds for continuing care services as well as regional center workshops. Table 6 identifies how much Title XX funds are currently budgeted for these departments.

Table 6
Allocation of Title XX Funds
to the Department of Mental Health
and the Department of Developmental Services

	Department of Developmental Services	*Department of Mental Health*
1. Federal Title XX Funds (75 percent)		
a. Item 287	$9,636,600	$8,508,939
2. General Fund (25 percent)		
a. Item 271	3,212,200	—
b. Item 275	—	2,836,313
Total	$12,848,800	$11,345,252

The proposed continuation of Title XX funds in these programs will not result in any significant program or administrative benefit. As a result, we recommend that Budget Items 271, 275, and 287 be revised so that the proposed allocation of federal Title XX funds to the Department of Developmental Services and the Department of Mental Health be replaced by General Fund support. This can be accomplished by transferring federal funds currently allocated to these programs to the In-Home Supportive Services program and transferring an equal amount of General Fund dollars from in-home supportive services to programs for the mentally and developmentally disabled.

This redirection will not have any impact on total funds available to each of these programs. However, it will result in greater administrative efficiency and an indeterminate General Fund savings by eliminating unnecessary planning, reporting, budgeting and monitoring activities. Because state law in effect July 1, 1979 will require that any General Fund dollars allocated to county mental health programs be matched by 10 percent in county funds, we further recommend that Budget Act language be added to Item 275 to exempt counties from providing a match for the redirected funds. In this way, counties will not be penalized for a funding transfer at the state level by having to provide additional funds. However, we continue to recommend that counties be required to provide a 10 percent match for all other General Fund support received for local mental health programs, as discussed in Item 275.

Department of Social Services
COUNTY ADMINISTRATION

Item 288 from the General Fund — Budget p. 774

Requested 1979–80	$79,008,300
Estimated 1978–79	71,420,291
Actual 1977–78	70,344,248
Requested increase $7,588,009 (10.6 percent)	
Total recommended reduction	$506,000

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
288(a)	AFDC	General	$63,830,100
288(b)	Special Adult Programs	General	973,600
288(c)	Food Stamp Administration	General	12,978,800
288(d)	Emergency Payments	General	465,600
288(e)	Nonmedical Out-of-Home Care Certification	General	760,200
288(f)	County Staff Development	General	7,301,153
288(g)	County Staff Development	Federal	−7,301,153
	Total		$79,008,300

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Proposed Regulations. Reduce Item 288 by $506,000.* Recommend reduction for the cost of proposed regulations relating to the Garcia vs. Swoap case which is still pending. 811
2. *Administrative Cost Control.* Recommend modifications to the Administrative Cost Control Plan. 811

COUNTY ADMINISTRATION

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, and (c) administration of the special benefit and emergency payment programs which provide services to aged, blind and disabled recipients. County staff development training, which is reimbursed by federal funds, is also shown in this item's schedule.

COUNTY ADMINISTRATION—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation of $79,008,300 for the state share of county welfare department administrative costs. This is an increase of $7,588,009, or 10.6 percent, over the estimated current year expenditures. Table 1 shows the major components of this increase. The largest component is $4,238,300 to provide a 6 percent cost-of-living increase for county welfare departments' salaries and nonpersonal services. Expenditures for food stamp administration are anticipated to increase by $3,339,300. Of this amount, almost $2.0 million reflects the net increase in administrative costs due to the Food Stamp Reform Act of 1978.

Table 1
Proposed General Fund Budget Adjustments for County Welfare Department Administration 1979–80

	Cost	*Total*
A. Budget Base		$71,420,291
B. Budget Adjustments		
1. Administration of AFDC Programs		
a. Growth in caseload and cost per case	$2,711,800	
b. Six percent cost-of-living increase for salaries and nonpersonal services	2,688,800	
c. Other adjustments	−733,600	
		$4,667,000
2. Administration of Special Adult Programs		
a. Termination of minimum income level retrieval project—one year (1978–79)	−231,100	
b. Caseload growth in special circumstances and APSB programs	76,800	
c. Six percent cost-of-living increase for salaries and nonpersonal services	39,000	
		$−115,300
3. Food Stamp Administration		
a. Net increase in administrative costs due to Food Stamp Reform Act	1,969,200	
b. Six percent cost-of-living increase for salaries and nonpersonal services	1,461,500	
c. Increased costs due to court cases	518,500	
d. Other adjustments	−609,900	
		$3,339,300
4. Emergency Payments		
a. Six percent cost-of-living increase for salaries and nonpersonal services	18,400	
b. Other adjustments	19,700	
		$38,100
5. Nonmedical Out-of-Home Care Certification		
a. Six percent cost-of-living increase for salaries and nonpersonal services	30,600	
b. Deficiency appropriation for 1976–77	−300,000	
c. Other Adjustments	−71,691	
		$−341,091
Total Budget Increases		$7,588,009
Proposed Total from General Fund, Item 288		$79,088,300

Proposed Regulations—Garcia Vs. Swoap

We recommend a General Fund reduction of $506,000 pending the issuance and review of new regulations.

The budget proposes a total General Fund appropriation of $2,204,500 for proposed regulations resulting from the Garcia vs. Swoap case. Of this amount, $1,698,500 for grant supplemental payments are included within the funds specified in Control Section 32.5, and $506,000 for county implementation costs are in Item 288. In our discussion of Control Section 32.5, we recommended that the funds proposed for supplemental payments be eliminated because: (a) the proposed regulations related to Garcia vs. Swoap have not yet been issued and (b) the case is presently pending in the court of appeals. We recommend that the $506,000 proposed for county implementation costs contained in this Item be eliminated for the same reasons.

COUNTY ADMINISTRATIVE COST CONTROL

Implementation of Plan

Prior to 1975–76, administrative costs of county welfare departments were growing more rapidly than the growth in workload and prices combined. As a result, the Budget Act of 1975 required the Department of Benefit Payments to establish a plan to control county administrative costs. During fiscal year 1975–76, the Department designed and implemented a cost control plan based on input from counties and other interested parties.

The basic concept behind the existing administrative cost control plan is that each county receives an allocation of funds within which it must operate. County allocations are based on productivity expectations. Counties in which productivity per worker is low compared to other counties receive smaller allocations than required to continue operating at current staff levels. Such counties can either improve worker productivity or provide additional funds of their own to cover the resulting deficit.

Several elements are especially important to the success of an administrative cost control plan of this kind. First, the state must not be too lenient when it establishes productivity expectations. If it is, the resulting county allocations are too large, and counties have no fiscal incentive to make major improvements in their operations.

Second, the state must not increase allocations except for acceptable cost-of-living increases, unanticipated workload increases or other exceptional circumstances beyond the counties' control. This means that if the state has excess funds in its appropriation, it should not "bail-out" a county which has failed to meet its productivity requirements or the discipline imposed by a cost control plan will be eroded and the benefits of such a plan will be lost.

Need for Revised Plan

We recommend that the county administrative cost control plan be revised to include more stringent productivity standards by changing the base year to 1977–78.

AFDC workload within a county welfare department can be divided

COUNTY ADMINISTRATION—Continued

into two functions. There is intake workload which is related to processing applications (approval and denials), intercounty transfers, and changes from one aid category to another. There is also continued case workload associated with maintaining, reviewing and updating existing cases.

The County Administrative Cost Control program has resulted in improvements in welfare department productivity. For example, welfare worker productivity has increased statewide since 1974–75. In addition, while administrative costs for the AFDC program have continued to increase during the last few years, the rate of growth has slowed.

Despite recent improvements in productivity, significant variations in eligibility worker productivity still exist among counties. Table 2 shows the number of intake actions and continuing cases per eligibility worker for the 11 counties with the largest caseloads.

Table 2

AFDC Intake Actions and Continuing Cases Per Eligibility Worker 1977–78

Counties	*Intake Action Per Eligibility Worker*[a]	*Continuing Cases Per Eligibility Worker*[a]
Alameda	26.08	113.72
Contra Costs	27.07	108.79
Fresno	23.23	141.18
Los Angeles	22.81	135.59
Orange	25.06	135.30
Riverside	42.30	143.07
Sacramento	31.37	127.10
San Bernardino	30.68	129.73
San Diego	24.48	112.21
San Francisco	24.05	118.04
Santa Clara	29.26	124.62
Average	27.85	126.30

[a] Excludes supervisors.

Similar variations in productivity exist among the medium and small counties.

The productivity of the 11 largest counties has improved over the last four years from an average of 23.06 intake actions per eligibility worker in 1974–75 to 27.85 intakes in 1977–78. Although productivity has improved, the cost control plan continues to rely upon productivity expectations which were established in 1974–75. While these productivity expectations were reasonable as a beginning point, we believe that they should be adjusted upward periodically to reflect the progress made in productivity as well as to encourage further improvements in productivity.

In order to encourage further improvements in welfare department performance, we recommend that the county Administrative Cost Control Plan be revised to include more stringent productivity standards by changing the base year to 1977–78. For example, the department should determine the average number of intake actions per eligibility worker for the large, medium and small counties using the 1977–78 base year. A county whose performance is below its respective group's mean level would be required to increase its activity to equal the average level of its group. If a county is unable to improve worker productivity to operate within its allocation, the county would have to provide additional funds to cover the deficit.

If this recommendation is adopted, it will result in savings to the state for the cost of welfare administration by encouraging greater productivity by county welfare departments. For example, Orange County, which averaged 25.06 intake actions per eligibility worker in 1977–78, would be allocated only enough funds in 1979–80 for 27.85 intake actions thereby requiring an improvement in worker productivity. (The 27.85 intake actions is the average number of intake actions in 1977–78 for the 11 largest counties.)

Provisions for Overhead Costs

We recommend that county allocations be calculated on the assumption that no county will spend more than $1 on overhead support for each $1 spent on eligibility worker salaries and benefits.

On a statewide basis, counties spend approximately $1 on overhead for each $1 spent on eligibility worker costs. Eligibility workers are the employees who deal with the public and make the eligibility determinations. Overhead costs consist of expenditures for administrative staff, clerical backup staff, rent, travel, data processing, charges made by the other county agencies, and other operating costs. Table 3 shows the wide variations between counties in the amounts spent on overhead support.

Table 3
AFDC Program
County Welfare Department
Overhead Cost Ratios
1977–78

	Overhead per $1.00 of eligibility worker cost
Fresno	$.57
Sacramento	.63
San Diego	.65
San Bernardino	.74
Orange	.88
Santa Clara	.88
Alameda	.97
San Francisco	.96
Contra Costa	1.05
Riverside	1.01
Los Angeles	1.24

We do not believe that these wide variations between the 11 largest counties are justified. In order to reduce county variations in overhead costs, we recommend that county allocations be calculated on the assump-

COUNTY ADMINISTRATION—Continued

tion that no county will spend more than $1 on overhead for every $1 spent on eligibility worker salaries and benefits. If this recommendation is adopted, it will result in savings to the state because it would require that counties reduce their overhead cost ratios to no more than $1 for every $1 spent on eligibility worker salaries and benefits. For example, Contra Costa County would be required to reduce its overhead costs from $1.05 to $1.

Phase-in of Revised Allocations

We recommend that the department develop a plan for phasing-in revised productivity standards to avoid immediate sizable reductions for individual counties. Such phase-in recommendations should be presented to the Legislature by April 1, 1979.

Some counties might not be able to reach the recommended productivity standards in a single year without having to either layoff existing staff or commit substantial additional county funds to the system. Therefore, we recommend that the department develop a system of phased allocation reductions and be prepared to present the proposal to the Legislature by April 1, 1979. We further recommend that the department not allocate phase-in funds to a county until the state and county have signed a memorandum of understanding outlining the steps the county will take to improve its productivity.

Avoidance of Cost Overruns

We recommend language be included in the Budget Bill to clarify the department's authority to refuse funding for county cost overruns.

Current Budget Act language states that funds for county welfare department administration will be controlled within the amount appropriated. Some counties have argued that if there is a year-end surplus in the county administrative item, the state is obliged to fund county cost overruns, including overruns caused by a county's failure to meet its productivity goals.

If the state were to use remaining funds to cover these cost overruns, the incentives to improve productivity and efficiency would be weakened significantly. For this reason, we recommend that surplus funds not be used for county cost.

Because the current Budget Bill language is general, we recommend the following language be added specifying that the department shall not fund county cost overruns caused by a county's failure to meet its productivity goals.

"Provided further that during the 1979–80 fiscal year the department in administering the plan to control county administrative costs shall not allocate funds to cover county cost overruns which result from county failure to meet minimum productivity expectations."

Department of Social Services
EXECUTIVE MANDATES

Item 289 from the General Fund — Budget p. 777

Requested 1979–80	$42,100
Estimated 1978–79	42,100
Actual 1977–78	N/A
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's budget proposes a General Fund appropriation of $42,100 to reimburse counties for the cost of implementing state regulations for the Aid to Families with Dependent Children (AFDC) program and the Aid to the Potentially Self-Supporting Blind program, in accordance with Section 2231 of the Revenue and Taxation Code.

1. *Work Related Equipment.* The department has implemented regulations which exclude the entire value of an AFDC recipient's work-related equipment from property value in determining eligibility for benefits. Previous regulations provided a maximum exemption of $200.

2. *Treatment of Loans.* The department proposes to implement regulations which would change the method of treating loans when calculating a recipient's grant level under the AFDC and APSB programs. Under current regulations, outside loans made to recipients are counted as income when determining a recipient's grant. The proposed regulations would exclude loans which the recipient is required to repay from income.

Department of Social Services
LEGISLATIVE MANDATES

Item 290 from the General Fund — Budget p. 783

Requested 1979–80	$14,407,300
Estimated 1978–79	16,581,937
Actual 1977–78	20,792,310
Requested decrease $2,174,637 (13.1 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 for AFDC recipients. Normally, counties pay a portion of AFDC grant costs. However, because the state mandated the

LEGISLATIVE MANDATES —Continued

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 $14,407,300 for fiscal year 1979–80 to reimburse counties for their portion of the cost of AFDC grant increases which became effective January 1, 1977. The proposed $14,407,300 is a decrease of $2,174,637, or 13.1 percent, below the current year. Expenditures in the current year are estimated at $16,581,937. This includes $1.5 million of a prior year balance to cover claims filed against fiscal year 1976–77.

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.

Health and Welfare Agency

CALIFORNIA HEALTH FACILITIES COMMISSION

Item 291 from the California Health Facilities Commission Fund — Budget p. 793

Requested 1979–80	$1,941,679
Estimated 1978–79	1,830,658
Actual 1977–78	1,096,747
Requested increase $111,021 (6.1 percent)	
Total recommended reduction	$8,150

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Cost Containment Study. Augment Item 291 by $65,000.* Recommend the commission conduct study of state cost containment programs.	818
2. *Research Support. Reduce Item 291 by $73,150.* Recommend reduction of funds budgeted for increased research staff.	819
3. Patient Billing Data. Recommend legislation requiring hospitals to provide the commission with patient discharge and billing data.	820

General Program Statement

The California Health Facilities Commission collects financial data from health facilities and discloses financial information on the facilities to the public.

The commission was created by Chapter 1242, Statutes of 1971, which also required that a uniform accounting and reporting system be developed for hospitals. Chapter 1171, Statutes of 1974, applied this reporting requirment to long term care facilities. The purposes of the reporting requirement are 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.

Chapter 1337, Statutes of 1978 (SB 1903), expanded commission responsibilities by requiring the commission to: (1) establish standards of effectiveness for health facilities, and (2) forecast hospital operating and capital expenditures for each of the state's Health Systems Areas and for the state as a whole. Health Systems Agencies must then consider these standards and forecasts in developing their area health plan.

ANALYSIS AND RECOMMENDATIONS

The commission proposes expenditures in the budget year of $1,941,679 which is an increase of $111,021 (6.1 percent) over the $1,830,658 shown in the budget for the current year. The primary reason for the increase is the addition of funds to establish five new positions.

Cost Containment Study

We recommend that the commission prepare a report for the Legislature, to be submitted on or before January 1, 1980, which (1) describes existing state cost containment systems, (2) reviews any evaluations of these systems which have been performed, (3) discusses the applicability of these systems to California, (4) presents a range of options for California specifying the costs and the benefits of each and (5) recommends a specific system. We further recommend that Item 291 be increased by $65,000 to support the costs of the study.

Inflation Rate Excessive. Health care costs in the nation as well as in California have increased at an alarming rate. Data presented in the commission's 1978 Annual Report demonstrate that:

1. Increases in hospital expenditures in California have averaged over 18 percent per year from 1972 to 1977.

2. During 1977 alone, hospital costs in California rose from $4.5 billion to $5.3 billion even though the service level did not change.

3. Between 1972 and 1976, Californians experienced a 93 percent in-

crease in hospital costs while the Consumer Price Index rose by only 36 percent.

4. If the inflation rate continues at 18 percent per year, California hospital costs will rise from the present $5.3 billion to $21.6 billion by 1985.

The commission estimates that government pays for approximately 60 percent of hospital costs in California. Specifically, it estimates that 7.2 percent of hospital revenues comes from county governments, 14.7 percent comes from Medi-Cal, 33.3 percent comes from Medicare, and approximately 5 percent comes from government paid employee health benefits and income tax deductions for health care.

Influence of Payment Systems. One factor which may be contributing significantly to the rapid rise in hospital cost is the payment system. In California, Medicare, Medi-Cal and Blue Cross pay hospitals retroactively for almost all expenditures they incur. Thus, government is providing what amounts to an open-ended appropriation for reimbursement of hospital operating costs in these program areas.

This type of reimbursement system does not provide hospitals with any incentive to control costs because they receive total reimbursement for their charges.

Twelve states have implemented cost containment programs which rely on prospective reimbursement systems. Under this method, hospital budgets and rates are set in advance and reimbursement is made only for the amount established at the beginning of the fiscal year. Nine of these states have mandatory programs, while three are voluntary. The systems being utilized vary considerably, from rate setting by formula (New York) to budget review (Indiana) to a combined system in Washington state.

Even though the first prospective rate setting system was implemented over 10 years ago, only a few attempts have been made to analyze the effect of the systems on hospital costs. The Health Care Financing Administration (HCFA) in the U.S. Department of Health, Education and Welfare (HEW) has received evaluations on four state systems (New Jersey, Rhode Island, Indiana and New York) and a program in western Pennsylvania, which show that prospective reimbursements lessened the pace of inflation in hospital costs from 1 to 3 percent per year. These evaluations are the first in the nation to carefully document the effect of prospective reimbursement. (A 2 percent reduction in California in 1977 would have resulted in a savings of almost $900 million.) Additionally, the Secretary of HEW recently released data which demonstrated that in 1977, states with mandatory cost containment programs had an average inflation rate for hospital costs of 12 percent, while states with voluntary programs experienced an average rate of 15.6 percent and states with no programs experienced a 15.8 percent average rate.

Study Needed. The state's considerable financial interest in controlling health care costs requires that California consider the adoption of a prospective budgeting system for hospitals. We believe that before a specific system is adopted, however, a review of existing systems should be conducted. We recommend, therefore, that the commission prepare by January 1, 1980, a report for the Joint Legislative Budget Committee and the fiscal subcommittees which (1) describes existing cost containment programs implemented by other states (both mandatory and voluntary), (2) reviews any evaluations of these systems which have been performed, (3) discusses the applicability of each system to California, (4) presents a range of options for California including an analysis of the costs and benefits of each option and (5) recommends a specific system.

The commission estimates the cost of preparing a report of this nature at $65,000. We believe that this is a reasonable estimate and recommend an augmentation of $65,000 to Item 291 from the California Health Facilities Commission Fund.

Research Support

We recommend deletion of the four positions requested to support the commission's research functions, for a savings of $73,150.

Last year, the Legislature authorized 25 new positions to augment the commission's research activities. Specifically, the additional positions were intended to undertake the following projects: (1) establish a soundly based peer grouping system for hospitals, (2) develop a detailed analysis of hospitals' present and future capital costs and their impact on patient cost, (3) analyze hospital cost per capita by county, (4) study the reimbursement practices of private health insurance companies, (5) examine the effect of increased staffing on hospital costs (for each health systems area), (6) produce information on the efficiency of hospitals, (7) study the compensation of hospital based physicians, (8) report on the costs of excess bed capacity in hospitals, (9) develop a uniform budget and rate system for hospitals, and (10) develop a system for the collection of patient and discharge data.

Because it was estimated that the revenue in the California Health Facilities Commission Fund would not be adequate to fund them, the Legislature appropriated $195,000 from the General Fund to support the positions. The Governor vetoed the $195,000 General Fund appropriation and the Department of Finance subsequently deleted five of the positions.

The commission proposes to add four positions in the current year. These positions would assist the 20 which were established in the current year in carrying out the research activities listed above.

Data provided to the Legislature during last year's hearings indicate that the first phase of seven of these projects will be completed by January 1980, and that staff will then perform "ongoing activities." There are no data available which specifically detail the ongoing functions resulting from these research projects.

We do not believe that four requested positions should be approved unless workload data demonstrate that the ongoing functions of these projects require a staffing level higher than the existing 20 positions. Consequently, we recommend deletion of the four proposed positions.

Accounting Position

We recommend approval of the requested account clerk II position.

Last year the commission's staff doubled in size from 32 to 64 positions. The commission is requesting an additional position for its business services section to assist with the additional workload generated by the staff

CALIFORNIA HEALTH FACILITIES COMMISSION—Continued

increase. We believe the position is justified.

Patient Billing Data Needed

We recommend that legislation be introduced requiring hospitals to provide the commission with patient discharge and billing data.

The commission is charged with identifying and disseminating information on ways of promoting economy in the provision of health care, consistent with high quality care. One of the tools critical to the analysis of hospital costs is the capacity to review patient discharge and billing data. Having access to this information would permit the commission to (1) assess the complexity of an individual hospital's patient load, (2) group and compare hospitals by difficulty of patient load, and (3) compare the charge structures of hospitals for delivery of similar services. Patient discharge and billing data are collected in abstracts, without patient or physician name. Thus, supplying the data to the commission would not violate confidentiality requirements. Further, a format for data collection has already been established (the Uniform Hospital Discharge Data Set for California). This format is being used by many California hospitals and is endorsed by the California Hospital Association.

In our analysis of Items 257 and 346, we have recommended that county and university hospitals be required to provide these data to the commission. While some hospitals are providing the data on a voluntary basis, we believe that the state's substantial investment in controlling health care costs warrants mandatory compliance with this vital information requirement. We therefore recommend that all hospitals be required to submit patient and discharge data to the commission.

Health and Welfare Agency

DEPARTMENT OF CORRECTIONS

Items 292–293 and 296–299 from the General Fund, Item 294 from the Inmate Welfare Trust Fund, and Item 295 from the Correctional Industries Revolving Fund — Budget p. 796

Requested 1979–80	$268,339,741
Estimated 1978–79	257,873,733
Actual 1977–78	253,824,967
Requested increase $10,466,008 (4.0 percent)	
Total recommended reduction	$1,491,754

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
292	Departmental Operations	General	$263,198,273
293	Workers' Compensation—Inmates	General	1,247,600
294	Inmate Welfare Fund	Trust	(6,339,900)
295	Correctional Industries	Revolving	(20,812,841)
296	Transportation of Prisoners	General	233,200
297	Returning Fugitives from Justice	General	816,200
298	Court Costs and County Charges	General	924,550
299	Local Detention of Parolees	General	1,919,918
	Total		$268,339,741

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Canteen Manager. Reduce Item 292 by $16,338.* Recommend that prison canteen manager position be funded by the Inmate Welfare Fund.	826
2. *New Positions. Reduce Item 292 by $35,498.* Recommend deletion of two security positions requested for special housing units at Deuel Vocational Institution.	827
3. Headquarters Car Pool. Recommend that three cars permanently assigned to executive/administrative staff be placed in the departmental car pool for the benefit of all headquarters staff.	828
4. *County Reimbursement for Detaining Parolees. Reduce Item 299 by $1,439,918.* Recommend elimination of overbudgeting.	829

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.

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 22,980 in institutions and 14,677 on parole (including felons and nonfelon drug addicts).

ANALYSIS AND RECOMMENDATIONS

The budget proposes $268,339,741 from the General Fund for support of the Department of Corrections in 1979–80. This is $10,466,008, or 4 percent more than estimated expenditures in the current year.

The department's proposed budget provides for program and personnel increases in the institutional program and decreases in the community correctional program. Other departmental programs generally would be continued at their previously authorized level. Total expenditures of the department, the Narcotic Addict Evaluation Board, and special items of

DEPARTMENT OF CORRECTIONS—Continued

expense, from all funding sources (General Fund, special and federal funds, and reimbursements), are summarized in Table 1.

Control Sections 27.1 and 27.2

Control Sections 27.1 and 27.2 of the Budget Act of 1978 require that the Department of Finance restrict expenditures for personal services and operating expenses and equipment in order to achieve a specified funding reduction in the current year. The proposed budget for the department indicates that the following savings will be achieved pursuant to these provisions:

a. $1.5 million savings in operating expenses and equipment and;
b. $363,000 savings in personal services from the reduction of 16.5 positions.

The budget proposes the continued deletion of the positions.

Table 1
Department of Corrections
Expenditures Summary

	Estimated 1978–79	*Proposed 1979–80*	*Change From Current Year*	
			Amount	*Percent*
General Fund	$257,873,733	$268,339,741	$10,466,008	4.0%
Correctional Industries Revolving Fund	20,197,764	20,812,841	615,077	3.0
Inmate Welfare Fund	5,919,240	6,339,900	420,660	7.1
Federal funds	108,777	91,777	−17,000	−15.6
Reimbursements	10,758,295	8,008,880	−2,749,415	−25.6
Total	$294,857,809	$303,593,139	$8,735,330	3.0%
Program				
I. Reception and diagnosis	$2,939,876	$3,039,477	$99,601	3.4%
Personnel-years	126.9	128.1	1.2	.9
II. Institution	244,296,471	252,095,773	7,799,302	3.2
Personnel-years	6,955.6	7,021.1	65.5	.9
III. Community correctional program	27,329,020	26,283,643	−1,045,377	−3.8
Personnel-years	817.2	725.1	−92.1	−11.3
IV. Administration (undistributed)	16,398,574	18,280,378	1,881,804	11.5
Personnel-years	322.5	311.3	−11.2	−3.5
V. Special items of expense	3,893,868	3,893,868	—	—
Totals	$294,857,809	$303,593,139	$8,735,330	3.0%
Personnel-years	8,222.2 [a]	8,185.6 [b]	−36.6	−.5

[a] Reflects a reduction of 16.5 positions as required by Section 27.2, Budget Act of 1978.
[b] Reflects an additional reduction of 50 positions.

Impact of Determinate Sentencing

On July 1, 1977, California's Determinate Sentencing Law took effect, replacing the indeterminate sentencing structure and replacing both the Adult Authority (for male felons) and the Women's Board of Terms and Paroles (for female felons) with a Community Release Board. The stated purpose of imprisonment is no longer rehabilitation of the offender. The law declares that "the purpose of imprisonment for crime is punishment."

The Determinate Sentencing Law, as modified by Chapter 165, Statutes of 1977 (AB 476), and Chapters 579 and 582, Statutes of 1978 (SB 709 and SB 1057, respectively), establishes a scale of three sentences for most felonies, with some crimes carrying a penalty of death or life imprisonment with or without the possibility of parole. There are ten such sentencing scales, with the minimum being 16 months. In sentencing an individual to prison, judges must initially select one of the three basic terms set for each offense. The law establishes a presumption in favor of the middle term, with the upper and lower terms allowed for special aggravating or mitigating circumstances, respectively. 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, or probation, or to suspend 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 law stipulates a maximum of three years on parole for prisoners with determinate sentences and five years for those without determinate sentences (lifers). When an individual with a determinate sentence has been continuously on parole for one year after release from confinement, the Community Release Board must discharge him, unless the board determines that there is "good cause" to retain him on parole. For felons without a determinate sentence, it is presumed that the parolee will be discharged after three continuous years unless the board determines there is "good cause" to retain the felon on parole.

The maximum time for any single reincarceration resulting from a technical violation of parole is one year (two years for paroled lifers). Any such period of reincarceration is not credited to an individual's parole period. Thus, the maximum amount of time persons with determinate sentences can be retained under parole and custody for a parole violation is four years; for persons with a life sentence the maximum period is seven years.

Persons convicted of crimes committed through June 30, 1977, were sentenced under the Indeterminate Sentencing Law and individuals convicted of crimes committed after that date are sentenced under the Determinate Sentencing Law. Table 2 shows the proportion of male felons convicted under the two laws. In cases where a person is convicted of a series of crimes, some of which predate the Determinate Sentencing Law, he may be sentenced under both laws. In these situations the Community Release Board (discussed in Item 300) is responsible for setting a determinate sentence. After the Determinate Sentencing Law became effective, it was nine months before 50 percent of the felony convictions in a month were sentenced under the new law. As of December 1978 this figure had increased to 75 percent.

DEPARTMENT OF CORRECTIONS—Continued

Table 2
Type of Commitment
Total Number of Male Felons Newly Received From Court
July 1977–December 1978

	Number				Percent		
Date	*Total*	*DSL*[a]	*ISL*[b]	*Both*	*DSL*	*ISL*	*Both*
1977							
July	582	—	579	3	—	99.5	0.5
August	593	8	581	4	1.3	98.0	0.7
September	506	32	459	15	6.3	90.7	3.0
October	509	53	433	23	10.4	85.1	4.5
November	557	125	410	22	22.4	73.6	4.0
December	674	223	405	46	33.1	60.1	6.8
1978							
January	652	258	330	64	39.6	50.6	9.8
February	589	276	258	55	46.9	43.8	9.3
March	808	410	323	75	50.7	40.0	9.3
April	732	416	241	75	56.8	32.9	10.3
May	761	456	223	82	59.9	29.3	10.8
June	895	585	240	70	65.4	26.8	7.8
July	666	439	184	43	65.9	27.6	6.5
August	795	540	195	60	67.9	24.5	7.6
September	690	483	163	44	70.0	23.6	6.4
October	722	502	170	50	69.5	23.6	6.9
November	751	570	140	41	75.9	18.6	5.5
December[c]	690	517	126	47	74.9	18.3	6.8

[a] Determinate Sentence Law.
[b] Indeterminate Sentence Law.
[c] Tentative.

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 $3,039,477 for this program is $99,601, or 3.4 percent, above estimated current-year expenditures. The increase is for merit salary adjustments and price inflation in order 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 25 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 1,280 inmates during the budget year. These camp inmates perform various forest conservation, fire prevention and suppression functions in cooperation with the Department of Forestry. The institution program will provide for a projected average daily population of 22,980 inmates in the budget year, an increase of 1,555 inmates over the current year.

Need for Increased Special Housing Units

The department maintains special housing units for three types of inmates to keep them isolated from the general, "mainline," population:

(1) Security Housing Units. These are the most secure "lock-up" facilities within an institution. They are used for inmates who pose difficult management problems and endanger the safety of other inmates.

(2) Management Control Units. These are secure units used to segregate from the mainline population inmates who are identified as affiliated gang members. Segregation of gang members is intended to reduce fights between the gangs and reduce pressure on other inmates to become gang members.

(3) Protective Housing Units. These units are used for inmates who are vulnerable to pressure (for any number of reasons) or are threatened and require protection from other inmates.

The department is filled to capacity in all three types of units. Furthermore, there is a waiting list of approximately 75 for bedspace within these special housing units. The increased need for security housing units primarily results from four factors: (1) the department estimates that the prison population will increase by 1,555 during the budget year; (2) the proportion of the prison population that is violence prone or predatory is increasing; (3) the size of prison gangs appears to be increasing both inside and outside the prisons; and (4) the intensity of warfare between gangs is increasing.

To increase capacity within these facilities the department is proposing modifications in four institutions:

1. Folsom State Prison. Convert, on a temporary basis, 31 cells to a security housing unit;

2. San Quentin State Prison. Convert 229 cells from a protective housing unit to a security housing unit, and convert 244 cells from an honor-block to a protective housing unit;

3. Deuel Vocational Institution (DVI). Convert 299 cells to a protective housing unit and 50 cells to a security housing unit.

DEPARTMENT OF CORRECTIONS—Continued

4. California Institution For Men. Convert 50 cells to a protective housing unit and 50 cells to a security housing unit.

These modifications will provide the department with an additional 360 cells for security housing and 364 cells for protective custody. The department estimates that these conversions will solve only its short-term needs.

To implement the conversions listed above, the department is requesting 133.9 new positions at a total annual cost of $2,559,891. The increased staffing is primarily necessitated by the increased security requirements of special housing units. We believe all but two of these new positions are justified by workload, and recommend that they be approved. However, among the new positions requested for DVI is one that should be funded by the Inmate Welfare Fund and two which should be deleted.

New Prison Facilities

New prison facilities are being proposed by the department and are discussed under Item 475a. This office is also recommending that up to three base centers operated jointly by the Department of Forestry and the California Conservation Corps be returned to their original use as inmate conservation camps operated by the Departments of Forestry and Corrections, as discussed in Item 188.

Improper Funding

We recommend that a prison canteen manager proposed for the special housing units at Deuel Vocational Institution be funded by the Inmate Welfare Fund for a savings to the General Fund of $16,338 (Item 292).

A Prison Canteen Manager I position is proposed to receive, fill and deliver canteen orders of inmates in the special housing units at DVI. (Inmates confined in these units are not allowed normal access to the prison canteen.) An additional task would be to inspect canteen orders to insure that contraband items, such as glass, are not given to the inmates. The Inmate Welfare Fund, which receives revenues from the sale of canteen products and inmate handicraft items, supports canteen activities throughout the department. Because this position is totally related to providing canteen service to the special housing units, it should be supported from the Inmate Welfare Fund, rather than from the General Fund. This would conform to existing policy.

Excess Recreational Time

We recommend deletion of two security positions proposed for the protective housing unit at Deuel Vocational Institute for a savings of $35,498 (Item 292).

Two new correctional officer positions are proposed for the protective housing unit at DVI to supervise the recreation yard—one from the yard itself and the other from a gun tower. This augmented staffing (two existing correctional officers positions used to supervise the yard will be continued) would allow 16 hours a day for outside recreational activity. Also programmed for this protective custody unit is an existing crafts program, a new vocational wood-working program, as well as academic instruction.

Given these other activities, we believe that eight hours of outside recreation per day is sufficient for this group of inmates. The protective custody units at other institutions have a maximum of eight hours per day for such activity and the department has provided no justification for providing a higher level of recreation for this unit. Therefore, we recommend deletion of the two new correctional officer positions.

III. 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.

For the Community Correctional program, the department proposes an expenditure of $26,283,643 in the budget year, which is a decrease of $1,045,377 or 3.8 percent below estimated current-year expenditures.This decrease reflects a decline in the parole population and the closing of the Sacramento Valley Community Center.

The felon parole population has decreased primarily as a result of the Determinate Sentencing Law, which limited parole to one year for all parolees except those who had been sentenced to life terms. Also contributing to the decline in parole has been a decrease in the non-felon, civil narcotic addict parole population. These narcotic addicts are criminal offenders whose drug addiction is recognized by the court as having contributed to the offense. For this reason, their felony convictions are suspended and they are committed to the department for treatment of their addiction under Section 3152 of the Welfare and Institutions Code. Increasing numbers of these defendants prefer sentencing on a felony conviction with a set term and one year on parole, rather than risk the possibility of serving a total period of seven years (including incarceration and parole) under Section 3152. This appears to be a direct result of the Determinate Sentencing Law.

We concur with the closing of the Sacramento Valley Community Center, a half-way house which serves as a temporary residence for parolees. Since the facility was opened, there have been problems maintaining the population at staffed bed capacity. The facility was previously used as a work furlough center, but insufficient numbers of inmates with the required security classification wanted to participate in the program in the Sacramento area. More recently, following conversion of the center to a half-way house, there has been a shortage of parolees using its facilities. The department will attempt to find a community vendor to operate the center on a contractual basis. Because payment to such vendors would be on a per capita basis, costs of operation should decline from present levels.

IV. 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 has 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 headed by a chief parole agent, assisted by centralized headquarters staff. Each of the 4 parole regions is directed by a parole administrator, and the parole function is subdivided into districts and parole units.

Headquarters Car Pool

We recommend that three cars permanently assigned to executive/administrative staff be placed in the departmental car pool for the benefit of all headquarters staff.

The department has five vehicles permanently assigned to executive/administrative staff: (1) Director, (2) Chief Deputy Director, (3) Deputy Director, Institutions, (4) Assistant Director, Law Enforcement Liaison, and (5) Senior Special Agent, Law Enforcement Liaison. Three of these automobiles should be placed in the departmental car pool—those assigned to: (1) Chief Deputy Director, (2) Deputy Director, Institutions, and (3) Assistant Deputy Director, Law Enforcement Liaison.

Travel logs for these three vehicles have not be filled in on a daily basis during the past year as required by Sections 4143.1 and 4143.2 of the State Administrative Manual. This has made it impossible to determine to what extent and for what purposes these cars are needed on an individual basis. Furthermore, Fleet Administration of the Department of General Services specifically disapproved the Home Storage Request permits for all three of these cars, in August 1978, on the basis that using these cars for commute purposes was not necessary for these individuals to meet their administrative responsibilities.

Therefore, we recommend that these three cars be permanently assigned to the departmental car pool for the benefit of all headquarters staff. This will reduce the departments' need to obtain other automobiles from Fleet Administration, and thereby provide more efficient use of state vehicles.

V. SPECIAL ITEMS OF EXPENSE

Items 296 to 299 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, costs in three categories are expected to remain the same as in the current year, while court costs and county charges are expected to decrease by $800,000 or 46.4 percent.

Table 3

Function	Actual 1977–78	Estimated 1978–79	Proposed 1979–80	Change From Prior Year Amount	Change From Prior Year Percent
Transportation of Prisoners (Item 296)	$220,000	$233,200	$233,200	—	—
Returning Fugitives from Justice (Item 297)	770,000	816,200	816,200	—	—
Court Costs and County Charges (Item 298)	1,626,934	1,724,550	924,550	$–800,000	–46.4%
County Charges for Detention of Parolees (Item 299)	616,000	1,919,918	1,919,918	—	—

County Reimbursements for Detaining Departmental Parolees Overbudgeted

We recommend that the amount proposed to reimburse county costs incurred in detaining certain department parolees be reduced by $1,439,-918 (Item 299).

Chapter 1237, Statutes of 1974, requires the department to reimburse counties for detaining its parolees when the detention is related solely to a violation of the conditions of parole and not to a new criminal charge. The $1,919,918 budgeted for this purpose is based on the anticipated number of confinement days multiplied by the estimated average per capita daily cost of operating county jails. However, the Attorney General has ruled that under Chapter 1237 the department can reimburse counties only for the *added* (that is, the incremental) costs of detaining state parolees. The department estimates that conforming to the Attorney General's opinion would reduce payments to counties by approximately 75 percent of the budgeted amount.

Based on the Attorney General's opinion, this item is overbudgeted. Therefore, we recommend that Item 299 be reduced from $1,919,918 to $480,000.

Health and Welfare Agency
COMMUNITY RELEASE BOARD

Item 300 from the General Fund — Budget p. 821

Requested 1979–80	$4,742,085
Estimated 1978–79	5,208,857
Actual 1977–78	4,868,127 [a]
Requested decrease $466,772 (9.0 percent)	
Total recommended reduction	None

[a] The Governor's Budget reports these expenditures in the Department of Corrections.

GENERAL PROGRAM STATEMENT

The Determinate Sentencing Law (Chapter 1139, Statutes of 1976) 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. In past years, program and budget data for this board and its predecessor agencies have been shown in the

COMMUNITY RELEASE BOARD—Continued

Governor's Budget under the Department of Corrections. Beginning with the budget year, the board's budget is being shown separately, reflecting its independent status.

As discussed more fully in our analysis of the Department of Corrections' budget request, the Community Release Board sets a determinate prison sentence and establishes the length and conditions of parole for male and female felons originally sentenced under the old Indeterminate Sentence Law. It also considers parole release for persons sentenced to life imprisonment with the possibility of parole. The one-third reduction in time served for good behavior and program participation, which the new law allows, is initially determined by the Department of Corrections, subject to review by the board on appeal from an inmate.

The board decides whether and for how long to reincarcerate parolees for technical violations of parole. It is required to review the sentences of all felons committed to the Department of Corrections within one year of commitment to ascertain whether specific sentences are in conformity with sentences received by other inmates for similar offenses. The board also advises the Governor on applications for clemency.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund expenditure of $4,742,085 for support of the Community Release Board in 1979–80. This is a decrease of $466,772, or 9 percent, from estimated current-year expenditures.

As shown in Table 1, staff requirements are expected to decline by 10 personnel-years from 104.2 in 1978–79 to 94.2 during the budget year. This reflects the deletion of 18 limited-term positions and 2.5 miscellaneous positions, which are partially offset by the addition of 10.5 new positions as discussed below. The board was not required to reduce staff under Section 27.2 of the Budget Act of 1978.

Table 1
Community Release Board
Budget Summary

	Personnel-Years	*Amount*
1978–79 Expenditures	104.2	$5,208,857
Positions Limited to June 30, 1979	−18.0	−664,903
In re Carroll Decision	3.5	365,570
Disparate Sentence Review	7.0	82,865
Other Adjustments	−2.5 [a]	−250,304
1979–80 Request	94.2	$4,742,085

[a] Includes 1.7 positions transferred to the Department of Corrections and an increase of 0.8 position of salary savings.

Decline in Workload Resulting From Sentencing Law Change

As discussed earlier, the Determinate Sentence Law replaced the Indeterminate Sentence Law on July 1, 1977. It required the board to set a determinate sentence for all inmates sentenced before that date. To accomplish this, the board was authorized 18 limited-term positions which will terminate on June 30, 1979. Workload changes are summarized in Table 2.

Table 2
Community Release Board
Workload Indicators

Workload	*Number of Cases* 1978–79	*Number of Cases* 1979–80	*Change from current year* Number	*Change from current year* Percent
1. Parole Consideration Hearings				
a. Life Term Prisoners	1,949	1,543	−406	−21%
b. Non-Life Indeterminate Sentence Law	8,048	3,298	−4,750	−59%
2. Extended Term Hearings	2,416	232	−2,184	−90%
3. Parole Revocation Hearings	3,838	3,327	−511	−13%
4. Rescission Hearings	640	480	−160	−25%
5. Denial of Good Time Credit	525	788	263	50%
6. Review Length and Condition of Parole	675	675	—	—
7. Discharge Review	9,215	7,954	−1,261	−14%
8. Decision Review	10,414	5,204	−5,210	−50%

The three most significant workload decreases are for: (1) Inmates sentenced for nonviolent crimes under the Indeterminate Sentence Law (Category 1(b) in Table 2) for which the board must set a parole release date. This element is expected to decrease by 4,750 cases or 59 percent; (2) Inmates convicted of violent crimes under the Indeterminate Sentence Law for which the board must conduct extended term hearings. This category will decrease by 2,184 cases or 90 percent; and (3) Headquarters review of every decision rendered by a board panel for legality and consistency, which decreases by 5,210 cases or 50 percent.

Court Decision Increases Costs

In re Carroll, a California appellate court decision, held that the board must issue subpoenas for witnesses upon request of parolees, inmates or counsel at parole revocation hearings. The board is requesting 3.5 positions and $365,570 (including subpoena service costs and witness fees) to implement this decision.

Permanent Staff for Disparate Sentence Review

The Determinate Sentence Law requires that the board review the sentence of each inmate to insure consistency with sentences received by other inmates sentenced for similar crimes and under similar circumstances. In the current-year, the board is using university workstudy students for this purpose. Because of rapid turnover of this type of employee and the resultant lack of consistency in review decisions, the board is requesting seven permanent positions and $82,865 for 1979–80.

Due to the increasing workload (from 8,000 cases in 1978–79 to 17,000 in 1979–80) and the importance of consistency, we concur with the board's request.

Health and Welfare Agency

DEPARTMENT OF THE YOUTH AUTHORITY

Items 301–306 from the General Fund — Budget p. 823

Requested 1979–80	$176,929,571
Estimated 1978–79	193,621,122
Actual 1977–78	124,009,031
Requested decrease $16,691,551 (8.6 percent)	
Total recommended reduction	$654,459

1979–80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
301	Department Support	General	$118,439,941
302	Transportation of Persons Committed	General	43,540
303	County Delinquency Prevention Commissions	General	33,300
304	Delinquency Prevention Projects, Research and Training Grants	General	200,000
305	Detention Costs of Parolees	General	75,500
306	County Justice System Subvention Program	General	58,137,290
	Total		$176,929,571

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Camp Program Underutilized. Recommend department identify steps taken to insure that camp program is fully utilized. 839
2. *Reception Center Capacity Misallocated. Reduce Item 301 by $136,000.* Recommend coeducational program be terminated and additional reception capacity made available. 840
3. *Additional Institutional Capacity Needed. Augment Item 301 by $278,048.* Recommend staff and operating expenses be provided to house 40 additional wards. 841
4. *Grant Overhead Funds. Reduce Item 301 by $134,406.* Recommend workload adjustments because of reduced grant activity. 842
5. *Teacher Costs. Reduce Item 301 by $17,000.* Recommend savings from reduced work-year option be recognized. 842
6. *Disciplinary Decision-Making System. Reduce Item 301 by $156,940.* Recommend positions added administratively be deleted. 842
7. *Cadet Corps Program. Reduce Item 301 by $42,310.* Recommend equal pay for all camp programs. 844
8. *Out-of-State Travel. Reduce Item 301 by $14,310.* Recommend out-of-state travel funds be reduced to level of 844

recent experience.

9. *Local Justice Training. Reduce Item 301 by $76,041.* Recommend local training program be reimbursable. 845
10. Chapter 461 Evaluation. Recommend evaluation address potential state savings. 845
11. Chapter 461 Repayment Possibilities. Recommend definition of potential penalties. 846
12. *County Reimbursement for Detaining Parolees. Reduce Item 305 by $55,500.* Recommend overbudgeting be eliminated. 846
13. *Crime and Delinquency Prevention. Reduce Item 301 by $100,000 and eliminate Item 304 ($200,000).* Recommend the Office of Criminal Justice Planning become single state agency for crime and delinquency prevention. 846

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, data processing, management analysis, personnel, training, and facility construction, maintenance and safety.

Prevention and Community Corrections

The prevention and community corrections program provides services to local public and private agencies and administers the County Justice System Subvention Program (Chapter 461, Statutes of 1978) and other local programs relating to delinquency prevention. The program consists of three elements: Financial aid, information, and juvenile detention facilities regulation.

Institutions and Camps

The institutions and camps branch is organized on a north-south regional basis. It operates four reception centers, eight institutions and five forestry camps as follows:

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

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.

According to the Governor's Budget, the department will house a projected average daily population of 4,909 wards in the budget year (Table 1), which is 344 above the current-year estimate. Population projections are discussed later in this Analysis.

Table 1

Average Daily Population of Youth Authority Institutions

	1977–78	*1978–79* [a]	*1979–80* [a]
Reception Centers (Male and Female Wards)	678	695	700
Facilities for Male Wards	3,332	3,735	4,064
Facilities for Female Wards	114	135	145
Total	4,124	4,565	4,909
Change from Prior-Year	—	+441	+344

[a] Estimated.

Parole Services

The primary role of the parole branch is to provide supervision of, and services to, wards after their release on parole. For management purposes, the branch is divided into four regions which supervise a total of approximately 40 parole offices and two residential programs. Average parole caseload for 1979–80 is estimated at 6,931 or 37 (0.5 percent) less than anticipated in the current year.

Planning, Research, Evaluation and Development

This program, through its planning and program assessment element, is responsible for the departmental planning process, reviewing problem issues and conducting short-term program reviews. The program and resources development element obtains grant funding and monitors grant-funded projects. The research element provides to management the evaluation and feedback 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 budget proposes $176,929,571 from the General Fund for support of the Department of the Youth Authority in 1978–80. This is a decrease of $16,691,551, or 8.6 percent from estimated expenditures during the current year. Additionally, the department anticipates budget-year reimbursements amounting to $9,126,663 and federal funds totaling $532,809, for a total expenditure program of $186,589,043.

Table 2
Budget Summary
Department of the Youth Authority

	Estimated 1978–79	*Proposed 1979–80*	*Change* Amount	Percent
Funding				
General Fund	$193,621,122	$176,929,571	$−16,691,551	−8.6%
Reimbursements	14,035,442	9,126,663	−4,908,779	−35.0
Federal funds	546,932	532,809	−14,123	−2.6
Totals	$208,203,496	$186,589,043	$−21,614,453	−10.4%
Programs				
Prevention and Community Corrections	$85,881,087	$60,946,629	$−24,934,458	−29.0%
Personnel-years	67.6	65.5	−2.1	−3.1
Institutions and Camps	94,465,843	97,958,329	3,492,486	3.7
Personnel-years	3,540.9	3,500.9	−40.0	−1.1
Parole Services	16,694,758	16,431,792	−262,966	−1.6
Personnel-years	440.9	428.1	−12.8	−2.9
Planning, Research, Evaluation and Development	2,206,541	2,095,129	−111,412	−5.0
Personnel-years	76.4	62.7	−13.7	17.9
Youth Authority Board	1,719,791	1,735,964	16,173	0.9
Personnel-years	42.0	41.3	−0.7	−1.7
Administration	7,035,476	7,421,200	385,724	5.5
Personnel-years	221.5	214.4	−7.1	−3.2
Title II Match [a]	200,000	—	−200,000	−100.0
Reductions per Sections 27.1 and 27.2, Budget Act of 1978	(−1,265,000)	(−700,000)	(565,000)	(44.7)
Personnel-years	−31.8	−31.8	—	—
Totals	$208,203,496	$186,589,043	$−21,614,453	−10.4%
Personnel-years	4,357.5	4,281.1	−76.4	−1.8

[a] Provides for supplies and materials to match a federal Public Works Employment Act grant.

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

Expenditure Comparisons Misleading. Table 2 summarizes the budget request, showing sources of funding by category, expenditure levels by program, and proposed dollar and position changes. Comparisons between fiscal years in the General Fund and budget totals are misleading because onetime costs of $27.2 million are included in 1978–79 as a result of legislative changes in the local assistance program. After adjusting for these onetime costs, the department's General Fund request for 1979–80 *increases* by about $10.5 million (6.3 percent) over current-year costs, rather than decreasing by $16.7 million as indicated in the budget. These changes and the fiscal consequences thereof are discussed later in this Analysis.

Subsidy Programs Revised

1. *County Justice System Subvention Program.* Chapter 461, Statutes of 1978 (AB 90), as modified by Chapter 464, replaced the local Probation Subsidy program and the subsidy programs authorized for the construction and operation of juvenile homes, ranches and camps with the County Justice System Subvention Program (CJSSP). Under the new program, counties will receive in 1978–79 either a per capita grant of up to $2.55, or an amount equal to the sum of the amount received in 1977–78 from the repealed subsidy programs and as reimbursement for costs imposed by Chapter 1071, Statutes of 1976 (AB 3121), whichever is greater. For purposes of calculating the new subsidy, all counties are considered to have a population of at least 20,000.

In order to receive state funds under the CJSSP, counties are required to maintain their juvenile and criminal commitment rates at or below their "base" commitment rate, which is calculated as the average number of new commitments to the Departments of the Youth Authority and Corrections per 100,000 population for fiscal years 1973–74 through 1976–77. Commitments for specified violent offenses (murder in the first or second degree, or certain arsons, robberies, rapes and assaults, for example) and of certain repeat felons would be excluded from "funding year" commitment rates but not from the base rate calculation.

Chapter 461, appropriated $55 million for the CJSSP in 1978–79. Of this amount, the Governor's Budget indicates that $54,846,500 will be subvented and the remaining $153,500 will be spent on an independent evaluation of the program's effectiveness as mandated by Chapter 461. For 1979–80 the subsidy is budgeted at $58,137,290 or 6 percent more than the current-year amount. Language included in the 1979 Budget Bill would limit increases in county grants to 6 percent even though Chapter 461 requires that the 1979–80 increase be based on the change in the cost-of-living between December 1977 and December 1978 (about 8 percent).

Chapter 464, which made minor changes in the County Justice System Subvention Program, also permitted $18 million appropriated by Chapter 1241, Statutes of 1977, to be expended. The purpose of this appropriation was to reimburse counties for Chapter 1071 costs incurred from January 1, 1977 to June 30, 1978. However, technical problems in Chapter 1241 (failure to specify disbursement procedures) precluded such payments.

The budget indicates that these payments will be made in the current year.

2. *Detention of Status Offenders.* Chapter 1061, Statutes of 1978, provided limited circumstances in which minors taken into custody solely on the basis of a "status offense" (run-aways, for example) may be detained in a secure facility. Previously, such minors could be detained only in shelter care facilities, crisis resolution homes or other nonsecure facilities. Status offenders securely detained pursuant to Chapter 1061 must be kept separate from minors detained for law violations. The act provided $1.5 million to assist counties with capital outlay costs incurred in meeting this separation requirement.

Current-Year Subsidy Costs Include Significant Onetime Expenses

As a result of the enactment of the new subsidy programs and the expenditure of amounts appropriated by Chapter 1241, current-year local assistance expenditures include onetime costs of $27.2 million. This tends to inflate expenditures in the current year and accounts for the reduction in budget-year funding requirements. Funding for the department's local assistance program is shown in Table 3.

Table 3
Local Assistance Programs
Department of the Youth Authority

Program	*Estimated 1978–79*	*Proposed 1979–80*	*Change from Current-Year*
Probation Subsidy [a]	$7,700,000 [b]	—	$−7,700,000
Delinquency Prevention Commissions	33,300	$33,300	—
Delinquency Prevention Grants	698,976	200,000	−498,976
Chapter 1071, Statutes of 1976, Reimbursements [a]	18,000,000	—	−18,000,000
Transportation of Wards	43,540	43,540	—
Detention of Parolees	75,500	75,500	—
County Justice System Subventions	54,846,500	58,137,290	3,290,790
Status Offender Detention Grants [a]	1,500,000	—	−1,500,000
Total, Local Assistance	$82,897,816	$58,489,630	$−24,408,186

[a] Onetime costs in the current year.
[b] Required to liquidate county earnings through June 1978, which were paid in arrears.

Current-Year Deficiency Identified—Institutional Population Still Underbudgeted

The Governor's Budget reflects a deficiency of $1.1 million in current-year funding requirements because institution population levels have exceeded original estimates. The department now anticipates an average daily population of 4,565 wards in the current year (compared to an earlier estimate of 4,412) and 4,909 in the budget year. By June 30, 1980, the ward population is expected to total 5,005, which will result in all capacity, *under present program formulas,* being utilized. However, there are an additional 336 beds not in use because of special programs which utilize low caseload formulas. Institutional population data are shown in Table 4.

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Table 4

Institutional Population—Department of the Youth Authority

Budgeted	*1978–79*	*1979–80*	*Change from Current-year*
Beginning of Year	4,324	4,742	418
End of Year	4,742	5,005	263
Average Daily Population	4,565	4,909	344
December 31, 1978			
Projected Assuming Straight Line Increase	4,533	—	—
Actual	4,708	—	—

By comparing the actual December 31, 1978, population (4,708) to either the straight-line projection (4,533) or the average daily population for 1978–79 (4,565), as shown in Table 4, it is clear that the department had a greater number of wards in its institutions at the end of 1978 than is reflected in the Governor's Budget. This indicates that the current-year deficiency of $1.1 million included in the Governor's Budget is understated. Additionally, it indicates that budget-year population projections are also understated, based on the current policy of the Youth Authority Board governing length-of-stay. Effective June 1, 1978, this policy increased the initial terms for some offenders, thus resulting in a longer average length-of-stay. While the length of stay has averaged 11.5 months for wards paroled in December 1978, that average may rise considerably as the percentage of wards whose terms were set under the new policy increases. Projections included in the Governor's Budget were based on an average length of stay of 11.5 months in 1978–79, and 12 months in 1979–80. Initial terms set by the board under the new policy have averaged 12.5 months. Three issues regarding the population problem are discussed later in this Analysis.

Expansion of Treatment Programs for Emotionally Disturbed Wards

The department proposes to expand its capability to deal with emotionally disturbed wards by upgrading three regular program living units to intensive treatment units, each of which will accommodate 35 wards. The additional 25 positions required to operate these programs have been redirected from other activities. The intensive treatment units will be an intermediate level of care between the regular program and the existing medical/psychiatric program, which has a capacity of 115 wards.

Departments to be Removed from the Health and Welfare Agency

Chapter 1252, Statutes of 1977 (SB 363), requires the Governor to submit, by January 31, 1979, a reorganization plan removing the Departments of Corrections and the Youth Authority from the Health and Welfare Agency by July 1, 1979. The budget does not indicate the new organizational placement of either department, or make any allowance for the costs that might result from a reorganization plan.

Position Reductions Unidentified

The Governor's Budget indicates that 31.8 unidentified positions and $700,000 have been deleted from the department's budget pursuant to Section 27.2, Budget Act of 1978. According to the budget, these positions will be identified during legislative hearings. The effect of this reduction on departmental operations cannot be precisely determined until the positions are identified. As a percentage of total staff, this reduction amounts to approximately 0.7 percent and should not significantly affect program performance.

Camp Programs Still Underutilized

We recommend that the department report during budget hearings on steps taken to insure that camp programs are fully utilized.

The department currently operates five separate conservation camps and one camp-type program each at the El Paso de Robles School and the DeWitt Nelson Training Center. Since early 1977 population levels of the five camps have been significantly below the budgeted level except for very brief periods.

Last year, in addition to recommending that a budgeted, but unopened, institutional based camp at the Ventura School not be opened, we recommended that the department develop procedures to insure that all qualified wards were assigned to a camp. According to a January 1978 departmental report, there were more than an adequate number of camp-qualified wards in the department's institutions at that time. Language was included in the Supplemental Report of the Conference Committee on the 1978 Budget Bill specifying that living units budgeted to be opened during 1978–79 remain closed unless existing capacity, especially in camps, is utilized substantially at the budgeted level.

Despite this expression of legislative intent and the ward population pressures, which the department has experienced in 1978–79 (as evidenced by the proposed $1.1 million deficiency), camp programs have continued to be underutilized throughout the current fiscal year. Month-end camps populations for July to December 1978 have ranged from 332 to 366, compared with a budgeted capacity of 380 and a physical capacity of 400. This underutilization has placed increased population pressure on the institutions.

We therefore recommend that the department take necessary action to maximize utilization of the camps and advise the fiscal committees of its plan to achieve this objective.

Reception Center/Clinic Capacity Misallocated

We recommend that the coeducational program located at the Northern Reception Center/Clinic be discontinued, and that reception capacity be increased by 21 beds for a net savings of $136,000 (Item 301).

The department operates two reception center/clinics, one in Sacramento (the Northern Reception Center/Clinic, generally referred to as NRCC) and one in Norwalk (the Southern Reception Center/Clinic). The reception program serves as an entry and processing point for persons committed to the department. Wards usually spend three to four weeks at the reception points for evaluation prior to being assigned to a regular institution program or camp. In the current year, the reception centers have been constantly overcrowded, with wards sleeping in the medical facilities, on mattresses on day room floors, or at other institutions while waiting for processing space at the reception centers.

To alleviate this problem, the department proposes to open on a full-

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

time basis, a small 20-bed living unit at NRCC which is presently used only when overcrowding occurs. Because of its small size, this unit is not cost efficient. It requires nearly the full clinic staffing complement of about 12 staff members even though only 20 wards (compared to 50 in most reception units) are served.

We believe that the 20-bed unit should only be used for overflow capacity. It is more appropriate, we think, to obtain the additional space required at NRCC by discontinuing a coeducational program (24 female/11 male wards) at NRCC and using the 41 beds in that unit for reception purposes. With only minor staffing and cost adjustments, the female wards could be transferred to the Ventura School, which is the department's primary institution for females.

The Ventura School will be staffed in 1979–80 to provide a full range of programs for 215 female wards, although the budget anticipates that only 195 female wards will be housed there. Physical capacity of the staffed units is 245.

The 11 male bed spaces currently located in the NRCC coeducational unit can be shited to one of the 50-bed living units currently budgeted for 30 wards at the Fred C. Nelles School. The fiscal consequences of this recommendation are shown in Table 5.

Table 5

Budget Summary of Recommendation to Terminate Coeducational program

1	Savings from changing coeducational unit to reception unit	$44,215
2.	Savings from not opening 20-bed reception unit.	252,800
3.	Cost of adding 24 female wards to Ventura School	−106,056
4.	Cost of adding 11 male wards to F.C. Nelles School	−54,959
	Net Savings	$136,000

In addition to increasing reception center capacity by 21 beds at a $136,000 savings, this recommended realignment would allow NRCC to continue using the 20-bed unit for reception overflow, thus reducing the need for wards to sleep on day room floors. If the department desires to maintain some capacity for female wards in northern California, it should transfer a full living unit from the Ventura School to one of the three institutions in Stockton. The displaced unit could then be transferred to the Ventura School.

Provide for Additional Institutional Population

We recommend that staff and operating expenses be provided to permit 40 additional wards to be housed at the Fred C. Nelles School at a cost of $278,048 (Item 301).

In 1972 the department implemented an experimental program at the Fred C. Nelles School in which the individual living unit populations were reduced from 50 to either 30 or 40 wards. It was assumed that by providing more intensive services, the average length-of-stay would decline enough to permit the institution to accept the same number of admissions as in the previous year. A 1974 departmental review of the program indicated that this objective was not being met for various reasons, including a change in Youth Authority Board term-setting policies. Similarly, as shown in Table 6, wards assigned to 30 ward dormitories do not earn term reductions sufficient to offset the difference in capacity between those units and the 40 ward units.

Table 6
Wards Paroled from the F.C. Nelles School in 1977–78

	30 Ward Units	*40 Ward Units*	*Total*
Paroled with time additions	32 (17%)	32 (22%)	64 (19%)
Paroled with time reductions	104 (56%)	101 (69%)	205 (62%)
Totaled paroled	184	145	329
Average change from initial term (in months)	−1.0	−1.8	−1.3

The data in Table 6 are based on the unit from which each individual was paroled. Therefore, it does not necessarily represent time extensions or reductions for wards assigned to 30- or 40-bed units. However, to the extent that a bias is reflected, it probably would be in favor of the 30 ward units. This is because wards with short initial lengths-of-stay are assigned to the 30 ward units. If a ward so assigned recieves an increase in his confinement period because of misconduct, he is likely to be transferred to a longer-term, 40-ward unit.

As discussed earlier, we believe that the institutional population level will exceed that presently forecast in the Governor's Budget. To accommodate a portion of the unbudgeted population, we believe that all living units at F.C. Nelles School should be raised to 40 wards. Therefore, we recommend that the department's budget be increased by $278,048 for staff and operating expenses. If the department, in its May revision to the budget, anticipates a need to house more wards throughout the system than this proposal would accommodate, it should consider raising all living units above the 40-ward level.

Grant Activity Declines—Administrative Support Not Needed

We recommend that seven positions which support the department's grant program be deleted for a savings of $134,406 (Item 301).

In our Analysis of the 1978 Budget Bill, we reported that the department anticipated receiving unrestricted grant overhead funds totaling $369,503. These funds are included in each grant to offset departmental costs for administering the grant program. Fifteen positions were identified as support staff for this function. However, the Governor's Budget reflected that only five of these positions were supported by grant funds (at a cost of $118,260); the remaining ten positions were financed from the General Fund. Therefore, we recommended adoption of a policy requiring that all positions which provide administrative support to the department's grant program be funded with grant overhead funds, and that General Fund support for this purpose be deleted. The administration concurred with this recommendation.

The 1979–80 Governor's Budget includes restricted grant overhead monies totaling $140,294. However, all 15 positions supported by overhead funds in 1978–79 are still shown in the budget. Because of the reduction

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in anticipated receipts, nine positions and $184,706 have been transferred to General Fund support for 1979–80. We have reviewed workload for these positions and believe that the work associated with seven of them are still grant-related. Due to the projected decline in grant support and workload, they should be deleted. If and when the department receives additional grants, any administrative positions needed at that time can be established on a workload basis. Therefore, we recommend that the department's budget be reduced by seven positions and $134,406 (Item 301).

Ten-Month Work Year for Teachers Permit Savings

We recommend a reduction of $17,000 (Item 301) to reflect the savings resulting when teachers elect to work only 10 months per year.

Because of the year-round nature of the department's educational program, a teaching staff is retained on a full year basis. However, individual teachers may elect to be employed under a so-called "10/12" plan in which they work for 10 months but have their pay spread over the entire calendar year. The department usually accrues savings under the 10/12 plan because the intermittent employees hired for the two-month period generally are paid at a lower rate.

Although the department estimates these savings at $17,000 in the current year, they are not reported as an offset to the 1979–80 funding request. Therefore, we recommend that the department's support budget (Item 301) be reduced by $17,000 to reflect these savings in the educational program.

Additional Staff for Disciplinary Decision Making System Not Needed

We recommend that six positions added administratively in the current-year to function as fact finders in the department's disciplinary system be deleted for a savings of $156,940.

Background. The Disciplinary Decision Making System (DDMS) was established as a result of a U.S. Supreme Court decision, *Wolff* vs. *McDonnell*, which specified due process standards for residents of correctional institutions who are subject to disciplinary actions. The decision established the following requirements for determining misconduct.

1. Advance written notice of charges must be given to the accused.
2. The accused shall be allowed to call witnesses and present evidence.
3. Substitute counsel shall be provided in some cases.
4. The fact finder must be impartial.
5. The fact finder must make a written statement as to the evidence relied on and reasons for the disciplinary action.

Thirty-one positions, including nine clerical, were added to the department's budget in 1976–77 for DDMS proceedings. The 10 institutions (including the two reception centers) chose to implement the fact finder requirements in different ways. In four institutions, including the Youth Training School which has the greatest disciplinary workload, middle management duties were realigned to permit one position to do almost all of the fact finding. In the other six institutions, this responsibility was shared among two or more middle managers, such as living unit supervisors.

Problem. The department found that the practice of allocating the fact-finding workload among several staff members created problems of uniformity and fairness in the fact-finding process. Therefore, the department administratively established six positions on July 1, 1978, to serve as DDMS fact finders in the six institutions where this function previously had been shared by middle management personnel, principally living unit supervisors. While we concur with the need to remove this function from the living unit supervisors and centralize it under a single employee, we do not, for the reasons discussed below, believe that full-time positions are justified for this program.

Although the budget change proposal which was prepared to justify full-time positions indicates that four hours of fact-finder time is required per case, the fact finder at the Youth Training School, who devotes about two-thirds of his time to this program, handled 841 cases in 1976, 859 in 1977 and 317 in the first six months of 1978. This would indicate that the processing of an average case requires approximately 1.5 hours.

For the two-and-one-half year period January 1976 through June 1978, none of the six institutions at which the positions were added had even one-half of the disciplinary workload at the Youth Training School. It is evident, therefore, that the task of fact finder at these institutions does not justify full-time positions.

Assign Responsibility on Part-Time Basis. We believe a more cost effective solution to handling the fact-finding function is for each of the six institutions to assign one position which does not involve supervising living units to serve as the primary fact finder. To reduce the amount of time diverted from their other management duties, individuals assigned this role should receive training from the Youth Training School fact finder.

For these reasons we recommend that the six positions added administratively in the current year be deleted for a savings of $156,940.

Significant Pay Increase for Ward Cadets

We recommend that wards assigned to the California Cadet Corps program at the Ben Lomond Youth Conservation Camp receive pay equal to that received by wards assigned to the department's other camps for a savings of $42,310 (Item 301).

During the current year, the department administratively established a California Cadet Corps company at the Ben Lomond Youth Conservation Camp. This was done without notifying the Legislature pursuant to Section 28, and increased departmental costs by $53,270. The purpose of the program is to provide structured activity (marching, exercise drills, etc.) for what is ward leisure time in the department's other camps. It is anticipated that this structure will avert some of the disciplinary problems that might otherwise occur. Under the program, wards participate in conservation work from 8AM to 4PM on weekdays and in cadet corps activities from 6:30 AM to 7:30AM and 6:30PM to 8:30PM on weekdays and 8AM to Noon on Saturdays.

The department's 1979–80 budget includes $202,690 for ward pay for the conservation camps. Wards assigned to the institution-based camps at

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DeWitt Nelson and El Paso de Robles and the four conservation camps which do not have the cadet corps program receive an average of $1.15 per day. When the cadet company was activated, the department increased ward pay rates at the Ben Lomond camp to an average of $3 per day. No justification for this increase has been provided. All camp wards receive premium pay while engaged in fire-fighting activities.

While it is possible that the cadet program will avert some of the disciplinary problems which might otherwise occur in the camp, we believe that it is inappropriate to provide a higher rate of pay for wards participating in this program than for wards assigned to the other camps. The primary purpose of the camps, in addition to instilling work habits as an element of ward rehabilitation, is to provide conservation work and maintain an emergency fire-fighting capability. Ward pay rates should be based on this activity rather than on the availability of a cadet program. Therefore, we recommend that the pay rate at this camp be reduced to the level paid at the other camps for a savings of $42,310 (Item 301).

Out-of-State Travel Overbudgeted

We recommend that funding for out-of-state travel be reduced to the level of recent experience for a savings of $14,310 (Item 301).

The Governor's Budget includes $42,770 for out-of-state travel for the department. As shown in Table 7, such travel has been consistently overbudgeted since 1975–76.

Table 7
Out-of-State Travel Expenditures
Department of the Youth Authority

Fiscal Year	*Budgeted*	*Expended*	*Percent of Budget Spent*
1975–76	$41,160	$17,096	41.5%
1976–77	35,800	24,421	68.2
1977–78	39,380	23,867	60.6
1978–79	40,100	—	—

Most of this expenditure is for transportation of staff accompanying wards being extradited from other states. The department has not yet identified other trips planned for 1979–80. Lacking detailed justification, we believe that the department's out-of-state travel request should be reduced to the level expended in 1977–78, adjusted for an inflation rate of 20 percent (equal to that allowed for intrastate air transportation by the Department of Finance in its budget preparation instructions). Therefore, we recommend an out-of-state travel allocation of $28,640 or 14,130 less than the amount included in the Governor's Budget.

Local Justice System Training Program Should be Self-Sufficient

We recommend that the department's local justice training program be made fully reimbursable for a General Fund savings of $76,041 (Item 301).

The department offers various training courses, such as advanced family counseling and juvenile law enforcement officer training, to local justice system employees. The total 1979–80 cost of this program will be $114,916, of which $38,875 will be recovered through tuition fees. According to the department, tuition rates are based on what various outside consultants charge and include an amount to cover the program's operating expenses. However, personnel costs are not considered in setting tuition.

We believe that programs of this type should be funded on a "user fee" basis. That is, total costs should be recovered from program beneficiaries. This approach forces state programs to be competitive, in terms of cost and quality, with programs available elsewhere. Therefore, we recommend that this program be put on a fully reimbursable basis for a savings of $76,041 (Item 301).

Chapter 461 Evaluation Should Address Potential Savings to State Correctional Agencies

We recommend that the independent evaluation mandated by Chapter 461, Statutes of 1978 (AB 90), address the relationship between local programs funded with Chapter 461 funds and the degree to which such programs reduce the need for state incarceration.

Chapter 461, which established the County Justice System Subvention program (discussed earlier in this Analysis), specified that an independent agency must conduct an evaluation of the program by June 30, 1982. The first six-months cost of the evaluation ($153,500) was allocated from the Chapter 461 appropriation, and the budget includes $307,700 to continue the evaluation in 1979–80. The department anticipates that the total cost of the evaluation will be approximately $1.1 million. The initial contract has been awarded to A. D. Little, Inc.

Counties are permitted to spend their Chapter 461 allocations on local correctional services. These expenditures should help counties stay within the commitment limits (described earlier) by providing suitable local programs for certain offenders who would otherwise be committed to state correctional institutions. Because of the high cost of state incarceration and the availability of Chapter 461 funds, we believe that the evaluation should address the degree to which these funds reduce the number of persons committed to state institutions, the services provided to them and the effect of the alternative dispositions on recidivism.

Chapter 461 Repayment Possibilities Should be Defined

We recommend that the department specify, in its regulations, those conditions under which it may require counties to repay subvented funds.

Under the County Justice System Subvention program, the director of the department is required to determine, at least annually, whether each county is complying with its commitment limit. If this review reveals that a county has exceeded its limit, or is likely to do so, it is given 60 days to submit a plan for correcting or avoiding the violation. If the director determines that the plan fails to resolve the problem in a satisfactory manner, the department may withhold all or a portion of the county's future subventions or may require repayment of funds previously disbursed. Because of the wide discretion given to the director, we believe the department should specify, in its regulations, the criteria to be used in setting the penalty.

County Reimbursements for Detaining Youth Authority Parolees Overbudgeted

We recommend that amounts included to reimburse county costs incurred in detaining certain Youth Authority parolees be reduced to $20,000 for a savings of $55,500 (Item 305).

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 violation of the conditions of parole and not to a new criminal charge. The act was patterned after Chapter 1237, Statutes of 1974, which requires the Department of Corrections to reimburse counties for detaining adult parolees under similar conditions.

The amount included in the budget is based on the anticipated number of confinement days times estimated *average per capita costs* for county jails ($20) and juvenile halls ($45). However, the Attorney General has ruled that under Chapter 1237 the Department of Corrections should reimburse counties only for their *added* (that is, incremental) costs of detaining state parolees. The language contained in Chapter 1157 governing Youth Authority payments is identical to that in Chapter 1237.

While the Department of the Youth Authority is making payments in accordance with the Attorney General opinion (generally between $2 and $8 per day), it has budgeted on the higher, average per capita cost basis. Based on the Attorney General's opinion, this item is overbudgeted. Therefore, we recommend that Item 305 be reduced from $75,500 to $20,000, for a savings of $55,500.

Consolidate State Crime and Delinquency Prevention Activities

We recommend that the Office of Criminal Justice Planning be designated the lead agency for state crime and delinquency prevention activities and that funding for overlapping activities of the Department of the Youth Authority be deleted, for savings totaling $300,000, consisting of $100,000 for administration (Item 301) and $200,000 in grants (Item 304).

Presently, three state agencies interact with local public and private agencies seeking financial support for various crime and delinquency prevention projects. The Department of the Youth Authority awards General Fund grants totaling $200,000 per year and expends about $100,000 of staff time in this area. The Department of Justice has a $482,421 crime prevention program, and the Office of Criminal Justice Planning (OCJP) expends approximately $40 million for projects designed to improve the criminal justice system. To eliminate duplication and overlap, total program responsibility should be placed in one state agency. We believe that OCJP is the proper agency to assume this role and have outlined the supporting reasons for this conclusion as part of our analysis of the OCJP budget (Items 407-412 of this Analysis).

The department's grant program is duplicative of the much larger OCJP grant program but, unlike the OCJP program which is about 90 percent federally funded, the department's program is entirely state supported. Moreover, the types of projects typically supported by the department can be financed at the county level under the new subvention program (Chapter 461, discussed earlier) which is budgeted at about $58 million. Thus, based on the ability of local governments to determine their own funding priorities under Chapter 461, and the availability of grants from OCJP, we believe that the department's program should be deleted for a General Fund savings of $200,000 (Item 304).

Additionally, the $100,000 in staff support should be deleted. The Office of Criminal Justice Planning is required by state and federal law to provide technical assistance to local agencies. Giving one state agency responsibility for technical assistance and advice in this area should provide for a more consistent and accountable program. Therefore, we recommend that Item 301 (department support) be reduced by $100,000, representing the cost of three positions and related expenses.

Should OCJP develop a coordinated, functional crime and delinquency prevention program, we believe that the Legislature should consider transferring the County Justice System Subvention program from the department to OCJP. Such consolidation would focus all available resources for criminal justice programs in one state agency, thereby improving accountability and simplifying coordination among all concerned levels of government. If that transfer is made, the Legislature should also transfer the $33,300 program (Item 303) which provides administrative funds to county delinquency prevention commissions.